

12 June 2017

## Events Round-Up

CH: CPI (y/y%), May: 1.5 vs. 1.5 exp.

CH: PPI (y/y%), May: 5.5 vs. 5.6 exp.

AU: Home loans (m/m%), Apr: -1.9 vs. -1.0 exp.

GE: Trade balance (€b), Apr: 18.1 vs. 23.0 exp.

UK: Industrial production (m/m%), Apr: 0.2 vs. 0.7 exp.

## Good Morning

In currency markets, the only price action of note on Friday was the plunge in GBP as soon as exit polls showed a likely inconclusive and therefore shocking election result. There was some intra-day volatility during the official count, but much of the initial market reaction was sustained and GBP closed the NY session around 1.2745, down 1.6% and at a similar level to the NZ close. NZD/GBP reached a high of just over 0.57, before ending at 0.5660, up 1.6%. PM May's gamble of trying to increase her Conservative party majority completely backfired. She remains the PM (for now) but requires the support of the 10-seat Democratic Unionist Party of Northern Ireland to form a working government. The details of any support agreement will be worked on this week.

There was little spillover of the shock election result to other currencies or asset markets, with the market viewing the outcome as an isolated UK problem with little contagion risk for the rest of the world. The election result likely weakens May's position ahead of Brexit negotiations with the EU, but the fall in GBP was moderated to the extent that some see this as a good thing, making a "softer" Brexit possibly more likely than the "hard" Brexit path that PM May was looking to pursue before the election.

Apart from GBP all other major currencies closed the day within plus or minus 0.2% versus the USD with little other news to drive markets. EUR closed just below 1.12. Following Thursday's ECB policy announcement and the nudge down in inflation forecasts, Governing Council member Nowotny said that there is "risk that inflation rates come in even lower if I assume a further increase of the euro exchange rate, which would be inflation dampening". While that comment came across as dovish, he also noted that he assumes the ECB will discuss tapering of asset purchases in July and September.

Despite the shock UK election result, the NZD traded in a

tight 25 pip range on Friday, ending flat around 0.7210. We suspect that the NZD is running into some headwinds following the strong recovery over the past couple of weeks. Q1 GDP data this week is expected to be on the soft side, while the FOMC is expected to hike rates and potentially not deviate much from its recent policy tone and rate projections. This combo would be NZD-negative at the margin.

Bond market reaction to the UK election was modest, with UK's 10-year rate down 3bps and Germany's 10-year rate up 1bp. The US 10-year rate continued to drift higher from its year-to-date low seen earlier in the week. From the opening of Asia trading, the rate was up 5bps to 2.23% at its peak, before meeting resistance and ending the NY session at 2.20%. A swoon in technology stocks and a spike up in the VIX index from a 24-year low of 9.37 up to as high as 12 got the market's attention. There was no real trigger for the move, and the S&P500 index ended fairly flat, but with a clear rotation away from tech stocks and towards the energy and financial sectors.

The key event risk this week is the FOMC announcement on Thursday morning with key retail sales and CPI data ahead of that. A Fed rate hike is nearly fully priced so the focus will turn to the economic and rate projections. We see a good chance that the Fed's rate projections over the next few years – which remain well above current market pricing – remain unchanged.

On Friday, NZ's swap curve barely changed while NZ government rates saw increases of 2-3bps across the curve. Swap-bond yield spreads have looked stretched of late as government bonds have outperformed, so a narrowing gap has been well overdue. It should be a quiet session today with Australia on holiday.

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## Coming Up

	Period	Cons.	Prev.	NZT
NZ Card spending retail (m/m%)	May	0.2	1.1	10:45
AU NAB business conditions	May		14	13:30
UK CPI (y/y%)	May	2.7	2.7	20:30
UK CPI Core (y/y%)	May	2.3	2.4	20:30
GE ZEW survey expectations	Jun	21.7	20.6	21:00
US NFIB small business optimism	May	104.5	104.5	22:00
US PPI final demand (y/y%)	May	2.3	2.5	00:30
US PPI ex food and energy (y/y%)	May	1.9	1.9	00:30

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7213	-0.0	0.7190	0.7218	CHF	0.9694	+0.2	S&P 500	2,432	-0.1	16.0	Oil (Brent)	48.15	+0.9
AUD	0.7527	-0.3	0.7520	0.7542	SEK	8.715	+0.1	Dow	21,272	+0.4	19.1	Oil (WTI)	45.83	+0.4
EUR	1.1195	-0.2	1.1166	1.1216	NOK	8.500	+0.1	Nasdaq	6,208	-1.8	26.8	Gold	1268.5	-0.6
GBP	1.2746	-1.6	1.2636	1.2780	HKD	7.797	-0.0	Stoxx 50	3,586	+0.6	23.2	HRC steel	600.0	+1.5
JPY	110.32	+0.3	110.09	110.81	CNY	6.798	-0.0	FTSE	7,527	+1.0	23.1	CRB	176.8	+0.4
CAD	1.3470	-0.3			SGD	1.385	+0.2	DAX	12,816	+0.8	30.3	Wheat Chic.	460.0	-0.7
NZD/AUD	0.9583	+0.4			IDR	13,291	-0.1	CAC 40	5,300	+0.3	23.1	Sugar	14.27	-0.5
NZD/EUR	0.6443	+0.1			THB	34.07	-0.0	Nikkei	20,013	+0.5	20.6	Cotton	75.69	-1.1
NZD/GBP	0.5659	+1.6			KRW	1,123	+0.1	Shanghai	3,158	+0.3	7.9	Coffee	126.6	+0.2
NZD/JPY	79.57	+0.2			TWD	30.13	+0.1	ASX 200	5,678	+0.0	6.9	WM powder	3145.0	-0.8
NZ TWI	77.80	+0.1			PHP	49.52	+0.0	NZX 50	7,436	-0.3	6.7	<b>Australian Futures</b>		
												3 year bond	98.24	-0.01
												10 year bond	97.56	0.00
Interest Rates														
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last			
USD	1.00	1.23	1.54	2.16	USD	2.20	0.01	NZGB 3 04/15/20	2.09	0.02	1 year	2.01	-0.01	
AUD	1.50	1.73	1.78	2.66	AUD	2.40	-0.00	NZGB 6 05/15/21	2.18	0.02	2 year	2.20	0.01	
NZD	1.75	1.94	2.20	3.16	NZD	2.76	0.03	NZGB 5 1/2 04/15/23	2.45	0.03	5 year	2.69	0.00	
EUR	0.00	0.06	-0.18	0.75	GER	0.26	0.01	NZGB 2 3/4 04/15/25	2.66	0.03	7 year	2.93	0.00	
GBP	0.25	0.29	0.48	1.08	GBP	1.01	-0.03	NZGB 4 1/2 04/15/27	2.76	0.03	10 year	3.16	0.00	
JPY	-0.06	-0.01	0.05	0.24	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.07	0.03	15 year	3.42	0.00	
CAD	0.50	1.17	1.07	1.74	CAD	1.42	0.01							

\* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NY close Sat morn

Source: Bloomberg

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