

12 May 2017

Events Round-Up

NZ: RBNZ official cash rate (%): 1.75 vs. 1.75 exp.
NZ: Food prices (m/m%), Apr: -0.8 vs. -0.3 exp.
UK: Industrial production (m/m%), Mar: -0.5 vs. -0.4 exp.
UK: Construction output (m/m%), Mar: -0.7 vs. 0.4 exp.
UK: Bank of England bank rate (%): 0.25 vs. 0.25 exp.
US: PPI final demand (m/m%), Apr: 0.5 vs. 0.2 exp.
US: PPI ex food and energy (m/m%), Apr: 0.4 vs. 0.2 exp.

Good Morning

US equities are down slightly with no fresh news to push them beyond their recent record level, while the VIX index has nudged up further to around 10.5. Global bond yields have shown only small changes, while in the currency market the NZD and GBP are weaker after central bank policy statements.

In overnight trading, the NZD has settled into a tight range, hovering around the 0.6850 mark, an area of strong technical support. This followed the initial plunge in the NZD as the RBNZ shocked the market with its unchanged policy guidance.

The RBNZ reiterated its view that “monetary policy will remain accommodative for a considerable period”. While that was no surprise, the market was perplexed with the Bank’s assessment that developments since the February MPS had no impact on its policy outlook. Amongst other factors, it didn’t matter that inflation in Q1 had surprised to the upside for the third consecutive quarter, or that most of the official core measures of inflation had further strengthened to above 2%. The Bank saw the recent increase in headline inflation as transitory and it gave more weight to its own-calculated measure of core inflation that put it steady over the past eighteen months at 1.5%.

The Bank maintained a neutral stance, which in practice means an equal chance of a rate cut or hike at this juncture and believes that an unchanged OCR of 1.75% through to late 2019 will be required to generate headline inflation of 2% over the medium term. With even the most dovish analysts in the market expecting a nod towards an earlier projected tightening than late-2019, the NZD fell across the board, and is currently down 1.3% on a TWI basis to around 75. To put the fall into context, the TWI is back to the level it was trading a week ago. Over

the past week, we had seen some NZD outperformance as the market anticipated a change in policy tone from the RBNZ.

In the rates market, 2-5 year swap rates fell by 7-9%, while the 10-year rate fell by 4bps. This sees the 2-year rate at 2.27%, near the bottom of the tight 2.25-2.36% range it has been trading in over the past two months, after moving to the top of the range in the lead-up to the Statement.

Market reaction in the rates market was restrained to the extent that most don’t buy into the Bank’s projections, but accepted that the hurdle rate for the first rate hike had increased. So the timing of the first rate hike only shifted slightly, from Feb/March to May, with over two rate hikes priced in for next year, and 100bps by the end of 2019.

GBP also came under pressure following soft data on industrial production, construction and trade and the Bank of England’s policy meeting. The vote to keep unchanged rates was 7-1, while some in the market had expected more dissension. Governor Carney said that the Bank may have to raise rates sooner than markets are expecting, but this was based on optimistic forecasts that assume a smooth adjustment to the new relationship with the EU. GBP is currently down 0.4% at 1.2890.

The other notable currency underperformer was CAD, which came under pressure after Moody’s downgraded the nation’s banks for the first time in more than four years. If not for a further recovery in oil prices, CAD would have fallen further. USD/CAD is up 0.3% at just under 1.37.

Elsewhere, there is not much else to report. The AUD has traded in a tight range, finding some support around 0.7375 after a weak month so far. Post RBNZ MPS, NZD/AUD has fallen from just above 0.94 to around 0.93.

The USD major currency index is flat. PPI inflation data were stronger than expected, but a blip higher in the USD wasn’t sustained. The Fed’s Dudley’s comments overnight were in line with Fed guidance of gradual rate increases and a cautious move towards balance sheet renormalisation from later this year. In the US market tonight the focus will be on CPI and retail sales data, where the market is not expecting a repeat of the very soft figures in March. If core CPI inflation significantly undershoots expectations for a second consecutive month, then expect the market to unwind the approximate

80% pricing risk of a June rate hike by the Fed and a weaker USD.

Ahead of that important data, US 10-year Treasury rates have traded in a tight range of 2.39-2.42% and currently sit at 2.40%.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ REINZ house sales (y/y%)	Apr		-10.7	09:00
NZ Manufacturing PMI	Apr		57.8	10:30
NZ New Zealand Plans to Sell 100m 2035 I/L Bonds				14:05
GE GDP, q/q%	1Q P	0.6	0.4	18:00
GE CPI EU harmonised (y/y%)	Apr F	2.0	2.0	18:00
EC Industrial production (m/m%)	Mar	0.3	-0.3	21:00
US CPI, m/m%	Apr	0.2	-0.3	00:30
US CPI ex food and energy (m/m%)	Apr	0.2	-0.1	00:30
US CPI ex food and energy (y/y%)	Apr	2.0	2.0	00:30
US Retail sales advance (m/m%)	Apr	0.6	-0.2	00:30
US Retail sales ex auto, gas (m/m%)	Apr	0.4	0.1	00:30
US U. of Mich. sentiment	May P	97	97	02:00
US U. of Mich. 5-10yr inflation exp	May P		2.4	02:00

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	0.6856	-1.2	0.6828	0.6864	CHF	1.0070	-0.2				Oil (Brent)	50.75	+1.0
AUD	0.7375	+0.1	0.7343	0.7379	SEK	8.880	-0.5				Oil (WTI)	47.81	+1.0
EUR	1.0868	+0.0	1.0839	1.0893	NOK	8.602	-0.2				Gold	1224.0	+0.4
GBP	1.2886	-0.4	1.2850	1.2949	HKD	7.790	+0.0				HRC steel	610.0	+0.0
JPY	113.91	-0.3	113.46	114.25	CNY	6.904	+0.0				CRB	180.4	+0.5
CAD	1.3695	+0.3			SGD	1.408	-0.2				Wheat Chic.	433.8	+0.5
NZD/AUD	0.9296	-1.3			IDR	13,346	-0.1				Sugar	15.63	-1.3
NZD/EUR	0.6308	-1.2			THB	34.71	-0.1				Cotton	79.18	+3.5
NZD/GBP	0.5321	-0.8			KRW	1,128	-0.7				Coffee	134.3	-1.8
NZD/JPY	78.10	-1.5			TWD	30.19	-0.2				WM powder	3150.0	-0.5
NZ TWI	75.05	-1.3			PHP	49.87	-0.2				Australian Futures		
											3 year bond	98.14	0.01
											10 year bond	97.32	0.02
Interest Rates							NZ Government Bonds				NZ Swap Yields		
Rates		Swap Yields			Benchmark 10 Yr Bonds		Last		Last		Last		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day						
USD	1.00	1.18	1.60	2.32	USD	2.40	-0.01	NZGB 3 04/15/20	2.24	-0.08	1 year	2.06	-0.04
AUD	1.50	1.74	1.83	2.88	AUD	2.65	-0.00	NZGB 6 05/15/21	2.40	-0.07	2 year	2.27	-0.07
NZD	1.75	1.99	2.29	3.39	NZD	3.03	-0.04	NZGB 5 1/2 04/15/23	2.69	-0.06	5 year	2.87	-0.08
EUR	0.00	0.06	-0.13	0.84	GER	0.43	0.01	NZGB 2 3/4 04/15/25	2.93	-0.06	7 year	3.13	-0.06
GBP	0.25	0.31	0.57	1.22	GBP	1.16	-0.01	NZGB 4 1/2 04/15/27	3.03	-0.04	10 year	3.39	-0.04
JPY	-0.04	0.00	0.04	0.26	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.32	-0.04	15 year	3.66	-0.03
CAD	0.50	1.17	1.02	1.83	CAD	1.60	-0.04						

* 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: NZT 06:49

Source: Bloomberg

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