

13 July 2017

## Events Round-Up

AU: Westpac consumer confid., Jul: 96.6 vs. 96.2 prev.

UK: Unemployment rate (%), May: 4.5 vs. 4.6 exp.

EC: Industrial production (m/m%), May: 1.3 vs. 1.0 exp.

CA: Bank of Canada Rate (%), Jul: 0.75 vs. 0.75 exp.

## Good Morning

Equity and bond markets alongside the NZD and AUD have been well supported after Fed Chair Yellen's testimony, while the CAD has surged after the Bank of Canada kicked off a tightening cycle.

Yellen generally stuck to the script at her testimony indicating that "To my mind, a prudent course is to make some adjustments as long as our forecast is that we're heading back to 2 percent". However, with intense scrutiny on every word she uttered, the market chose to read her comments as marginally more dovish than previously indicated. She called lower inflation "partly the result" of temporary factors such as lower cell phone charges, instead of "significantly" and she went on to say that uncertainty surrounds the question of "when – and how much – inflation will respond to tightening resource utilization." The market also took note of her nod to a lower neutral policy rate, with her comment that the central bank's policy rate "would not have to rise all that much further" to get to a rate that keeps supply and demand in balance in the economy.

This interpretation of Yellen's comments, encouraged a softer USD, lower US Treasury yields and supported US equities, with the S&P500 currently up 0.8%.

The Bank of Canada became the second major central bank to begin tightening monetary policy, with a well-anticipated 25bps rise in its policy rate to 0.75%, its first tightening in seven years. The Bank upgraded its growth forecasts and noted that the output gap is expected to close around the end of this year. Governor Poloz said that the central bank needs to target future inflation, overlooking temporary factors, and commented that it's reasonable to think inflation will be at target within a year. The usual adage of "buy the rumour, sell the fact" didn't apply here as the CAD has been the best performing major currency by far, with remaining short positions capitulated. USD/CAD is down 1.5% to 1.2720, after briefly dipping below 1.27, its lowest level in over a year, pushing NZD/CAD down to 0.9240. OIS pricing shows

another hike fully priced before the end of the year and a greater than even chance of a hike by October.

The overall performance of the USD post Yellen depends on which index is used. The USD majors index is down 0.4% for the day, driven by the stronger CAD, but the EUR has struggled to perform against the generally soft USD, and its large weight in the DXY means that index is actually up 0.1% for the day. EUR is down 0.5% to 1.1415, struggling to make further headway after its recent strong run. Net speculative positioning data shows a significant number of net long EUR contracts.

The NZD and AUD have shown solid gains of around 0.6%, helped by the softer USD and positive risk sentiment, trading at 0.7265 and 0.7680 respectively. NZD/AUD is flat at 0.9460 after yesterday's heavy fall, with traders wondering how much further possible downside there is. We think that the current mid-0.90s is a fair rate, and it is expected to oscillate around that level through the rest of the year.

GBP was weaker last night after BoE Deputy Governor Broadbent indicated that he wasn't ready to vote for higher rates even though he saw pressures building to do so. GBP then recovered after data showed the unemployment rate dropping to 4.5%, the lowest level in 42 years, even though earnings growth remained modest at just 1.8 percent, well below the current inflation rate. The currency is seeing some resistance around the 1.29 mark.

Global bond yields are lower, with US Treasuries in the driving seat for a change. The US 10-year rate fell by 5bps to as low as 2.30% after Yellen's testimony was published, but it has since settled at 2.32%, down 3bps from the NZ close. Lower global rates have seen a reversal of recent yen weakness, with USD/JPY down 0.6% to 113.25.

All eyes now turn to Friday night's US CPI report, where we'll either get confirmation that recent inflation weakness was temporary (bearish for bonds) or that inflation headwinds continue (bullish).

NZ rates were down 2-3bps across the curve, supported by lower US rates in the previous session. The 2-year swap rate closed at 2.30% and the 10-year rate closed at 3.375% and further downside pressure can be expected today. This morning REINZ data are expected to continue to paint a picture of a weaker housing market, with falling

sales and lower house price inflation. The food price index will allow us to firm up our CPI pick for next week, which is looking to come in soft at 0.1% q/q and 1.8% y/y. These indicators lend support to our view that the RBNZ will remain decisively neutral over coming months.

Tonight, Yellen will repeat her testimony to a Senate panel but will face a different barrage of questions.

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Coming Up

|   | Period | Cons. | Prev. | NZT   |
|---|--------|-------|-------|-------|
| NZ REINZ house sales, y/y%                                |        |       | -18.4 | 09:00 |
| NZ Food prices (m/m%)                                     | Jun    |       | 2.4   | 10:45 |
| NZ ANZ consumer confidence                                | Jul    |       | 127.8 | 13:00 |
| NZ New Zealand Plans to Sell \$100m 2040 I/L Bonds        |        |       |       | 14:05 |
| CH Imports (y/y%)   | Jun    | 14.5  | 14.8  |       |
| CH Exports (y/y%)   | Jun    | 8.9   | 8.7   |       |
| CH Trade balance (\$b)                                    | Jun    | 42.6  | 40.8  |       |
| GE CPI EU harmonised (y/y%)                               | Jun F  | 1.5   | 1.5   | 18:00 |
| US PPI final demand (m/m%)                                | Jun    | 0.0   | 0.0   | 00:30 |
| US PPI ex food and energy (m/m%)                          | Jun    | 0.2   | 0.3   | 00:30 |
| US Fed Chair Yellen Testifies Before Senate Banking Panel |        |       |       | 02:00 |
| US Fed's Evans Speaks in Idaho                            |        |       |       | 03:30 |
| US Fed's Brainard Speaks in Cambridge, Mass.              |        |       |       | 05:00 |

Source: Bloomberg, BNZ

| Foreign Exchange                |        |             |        |                       | Equities                   |         |       |                     | Commodities**         |        |         |       |                           |        |      |
|---------------------------------|--------|-------------|--------|-----------------------|----------------------------|---------|-------|---------------------|-----------------------|--------|---------|-------|---------------------------|--------|------|
| Indicative overnight ranges (*) |        |             |        |                       | Other FX                   |         |       |                     | Major Indices         |        |         | Price |                           |        |      |
|                                 | Last   | % Day       | Low    | High                  |                            | Last    | % Day | % Year              |                       | Last   | Net Day |       |                           |        |      |
| NZD                             | 0.7268 | +0.6        | 0.7224 | 0.7281                | CHF                        | 0.9652  | +0.1  |                     | S&P 500               | 2,445  | +0.8    | 13.6  | Oil (Brent)               | 47.78  | +0.5 |
| AUD                             | 0.7682 | +0.6        | 0.7643 | 0.7685                | SEK                        | 8.416   | +0.2  |                     | Dow                   | 21,549 | +0.6    | 17.4  | Oil (WTI)                 | 45.54  | +1.0 |
| EUR                             | 1.1417 | -0.4        | 1.1392 | 1.1489                | NOK                        | 8.271   | -0.1  |                     | Nasdaq                | 6,258  | +1.0    | 24.6  | Gold                      | 1219.6 | +0.4 |
| GBP                             | 1.2890 | +0.3        | 1.2812 | 1.2907                | HKD                        | 7.811   | -0.0  |                     | Stoxx 50              | 3,515  | +1.5    | 19.8  | HRC steel                 | 615.0  | -1.1 |
| JPY                             | 113.25 | -0.6        | 112.93 | 113.73                | CNY                        | 6.788   | -0.2  |                     | FTSE                  | 7,417  | +1.2    | 11.0  | CRB                       | 173.9  | -0.0 |
| CAD                             | 1.2717 | -1.5        |        |                       | SGD                        | 1.377   | -0.4  |                     | DAX                   | 12,627 | +1.5    | 26.7  | Wheat Chic.               | 537.0  | -2.9 |
| NZD/AUD                         | 0.9461 | +0.0        |        |                       | IDR                        | 13,370  | -0.1  |                     | CAC 40                | 5,222  | +0.6    | 20.6  | Sugar                     | 13.49  | +0.4 |
| NZD/EUR                         | 0.6366 | +1.0        |        |                       | THB                        | 33.96   | -0.4  |                     | Nikkei                | 20,098 | -0.5    | 23.8  | Cotton                    | 68.13  | -0.0 |
| NZD/GBP                         | 0.5638 | +0.2        |        |                       | KRW                        | 1,145   | -0.5  |                     | Shanghai              | 3,198  | -0.2    | 4.5   | Coffee                    | 127.6  | +0.6 |
| NZD/JPY                         | 82.31  | -0.0        |        |                       | TWD                        | 30.46   | -0.3  |                     | ASX 200               | 5,674  | -1.0    | 5.3   | WM powder                 | 3135.0 | +0.2 |
| NZ TWI                          | 78.00  | +0.4        |        |                       | PHP                        | 50.63   | -0.2  |                     | NZX 50                | 7,586  | -0.6    | 7.4   | <b>Australian Futures</b> |        |      |
| <b>Interest Rates</b>           |        |             |        |                       | <b>NZ Government Bonds</b> |         |       |                     | <b>NZ Swap Yields</b> |        |         |       |                           |        |      |
| Rates                           |        | Swap Yields |        | Benchmark 10 Yr Bonds |                            | Last    |       | Last                |                       | Last   |         |       |                           |        |      |
|                                 | Cash   | 3Mth        | 2 Yr   | 10 Yr                 | Last                       | Net Day |       |                     |                       |        |         |       |                           |        |      |
| USD                             | 1.25   | 1.30        | 1.60   | 2.28                  | USD                        | 2.32    | -0.04 | NZGB 3 04/15/20     | 2.24                  | -0.02  | 1 year  | 2.06  | -0.01                     |        |      |
| AUD                             | 1.50   | 1.70        | 1.93   | 2.91                  | AUD                        | 2.72    | -0.03 | NZGB 6 05/15/21     | 2.38                  | -0.03  | 2 year  | 2.30  | -0.02                     |        |      |
| NZD                             | 1.75   | 1.97        | 2.30   | 3.37                  | NZD                        | 3.00    | -0.03 | NZGB 5 1/2 04/15/23 | 2.66                  | -0.03  | 5 year  | 2.87  | -0.03                     |        |      |
| EUR                             | 0.00   | 0.06        | -0.12  | 0.94                  | GER                        | 0.58    | 0.03  | NZGB 2 3/4 04/15/25 | 2.88                  | -0.04  | 7 year  | 3.12  | -0.03                     |        |      |
| GBP                             | 0.25   | 0.30        | 0.66   | 1.32                  | GBP                        | 1.26    | -0.01 | NZGB 4 1/2 04/15/27 | 3.00                  | -0.03  | 10 year | 3.37  | -0.04                     |        |      |
| JPY                             | -0.03  | -0.01       | 0.05   | 0.29                  | JPY                        | 0.09    | -0.01 | NZGB 3 1/2 04/14/33 | 3.33                  | -0.04  | 15 year | 3.62  | -0.03                     |        |      |
| CAD                             | 0.75   | 1.17        | 1.53   | 2.19                  | CAD                        | 1.88    | 0.02  | NZGB 2 3/4 04/15/37 | 3.56                  | -0.03  |         |       |                           |        |      |

\* 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 06:58

Source: Bloomberg

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