

14 August 2017

## Events Round-Up

NZ: Manufacturing PMI, Jul: 55.4 vs. 56.0 prev.  
 NZ: Food prices (m/m%), Jul: -0.2 vs. 0.2 prev.  
 US: CPI (m/m%), Jul: 0.1 vs. 0.2 exp.  
 US: CPI ex food and energy (m/m%), Jul: 0.1 vs. 0.2 exp.  
 US: CPI (y/y%), Jul: 1.7 vs. 1.8 exp.  
 US: CPI ex food and energy (y/y%), Jul: 1.7 vs. 1.7 exp.

## Good Morning

Underwhelming US CPI data triggered a weaker USD and kept downward pressure on bond yields, alongside ongoing US-North Korea political tensions.

US equities ended the week on a flat note taking the cumulative fall for the week to minus 1.4%, the worst performance since March, not helped by Trump continuing to talk tough on North Korea and threatening military action. Trump warned that US military resources were in place, "locked and loaded," should North Korea "act unwisely". The VIX index rose to above 17, its highest level this year, before closing the week at 15.5, still up a hefty 55% for the week.

But the focus for the day was on US inflation data, which continued their soft run. At 0.1% m/m, the core CPI undershot market expectations for the fifth consecutive month and taking the five-month gain in the index to its weakest run since 2010.

The data triggered broadly-based USD weakness, with the various indices down in the order of 0.3-0.4%. Key technical support levels for DXY and BBDXY remain close and, while they have yet to be broken, are vulnerable to any further USD-negative news.

The NZD/USD closed the week at 0.7315 while NZD/AUD closed around 0.9270, both cross rates recovering back to levels preceding Assistant Governor McDermott's "threat" of currency intervention. As we noted last week the intervention comments made no sense to us but equally it didn't make much sense for the market to react to them either. The comments simply generated some increased volatility in the NZD, something the Bank is meant to be trying to avoid in its pursuit of price stability.

The RBNZ would do well to take a leaf out of the RBA playbook. Governor Lowe in his testimony to lawmakers

said that the Bank was not prepared to intervene at the moment, "we are prepared to intervene in extreme situations but they have got to be pretty extreme". On rates, Lowe indicated that market expectations of an interest rate hike some way down the track were reasonable. There was no notable market reaction to his testimony.

The NZD was up on all the major cross rates (mostly 0.2-0.5%) unwinding some or all of the fall after McDermott's intervention comments.

Heightened geo-political tensions continued to support the bond market, with UK and Germany 10 year rates down about 2-3bps. The soft US inflation data had more impact on the short end of the curve than the long end, with 2-year rates down 3bps to 1.29% and the 10-year rate down 1bp to 2.19%. Market expectations of Fed tightening continued to diminish. The odds of another hike this year fell from 36% to 25% after the CPI result. One now has to look to the end of next year before a full 25bp rate hike is priced in, well below the four rate hikes of the median expectation of FOMC members published in June.

On Friday, the Fed's Kaplan said that he wanted to "see continued evidence – or more evidence – that we're making progress on reaching our inflation objective," adding that "I'm willing to be patient", while the Fed's Kashkari delivered his usual dovish missive.

NZ swap rates reached fresh lows for the year, with the 2-year rate down over 3bps to 2.15% and the 5-year rate down 5bps to 2.62%, driven by global forces. In the week ahead, the local economic calendar is full of second-tier releases which shouldn't be market moving. Geopolitical developments provide the greatest source of market-moving potential, alongside US retail sales data and FOMC minutes from the last meeting.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Performance of services index	Jul		58.6	10:30
NZ	Real retail sales (q/q%)	2Q	0.7	1.5	10:45
AU	RBA's Kent gives speech in Sydney				11:35
JN	GDP (q/q%)	2Q P	0.6	0.3	11:50
CH	Retail sales (y/y%)	Jul	10.8	11	14:00
CH	Fixed assets (y/y%)	Jul	8.6	8.6	14:00
CH	Industrial production (y/y%)	Jul	7.1	7.6	14:00
EC	Industrial production (m/m%)	Jun	-0.4	1.3	21:00

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**				
Indicative overnight ranges (*)				Other FX				Major Indices				Price				
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day	
NZD	0.7315	+0.5	0.7253	0.7328	CHF	0.9618	-0.1		S&P 500	2,441	+0.1	11.8	Oil (Brent)	52.10	+0.4	
AUD	0.7894	+0.2	0.7839	0.7910	SEK	8.119	-0.2		Dow	21,858	+0.1	17.7	Oil (WTI)	48.82	+0.5	
EUR	1.1821	+0.4	1.1749	1.1847	NOK	7.931	-0.2		Nasdaq	6,257	+0.6	19.6	Gold	1287.7	+0.3	
GBP	1.3014	+0.3	1.2940	1.3031	HKD	7.818	+0.0		Stoxx 50	3,406	-0.8	11.9	HRC steel	621.0	+0.0	
JPY	109.19	-0.0	108.74	109.40	CNY	6.664	+0.2		FTSE	7,310	-1.1	5.7	CRB	179.6	+0.4	
CAD	1.2677	-0.5			SGD	1.361	-0.2		DAX	12,014	-0.0	12.1	Wheat Chic.	467.0	-0.4	
NZD/AUD	0.9267	+0.4			IDR	13,361	+0.2		CAC 40	5,061	-1.3	12.5	Sugar	13.20	-0.3	
NZD/EUR	0.6188	+0.2			THB	33.22	-0.1		Nikkei	19,730	-0.0	17.9	Cotton	69.24	-0.0	
NZD/GBP	0.5621	+0.3			KRW	1,144	+0.2		Shanghai	3,209	-1.6	5.2	Coffee	143.9	+1.3	
NZD/JPY	79.87	+0.5			TWD	30.35	+0.1		ASX 200	5,693	-1.2	2.9	WM powder	3300.0	+0.0	
NZ TWI	77.15	+0.4			PHP	51.01	+0.5		NZX 50	7,719	-0.9	4.8	<b>Australian Futures</b>			
														3 year bond	98.07	-0.01
														10 year bond	97.40	0.02
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	Last				
USD	1.25	1.32	1.55	2.15	USD	2.19	-0.01	NZGB 3 04/15/20	2.00	-0.01	1 year	2.01	-0.01			
AUD	1.50	1.69	1.89	2.79	AUD	2.59	-0.07	NZGB 6 05/15/21	2.13	-0.01	2 year	2.15	-0.04			
NZD	1.75	1.96	2.15	3.13	NZD	2.79	-0.04	NZGB 5 1/2 04/15/23	2.41	-0.02	5 year	2.62	-0.05			
EUR	0.00	0.06	-0.18	0.81	GER	0.38	-0.03	NZGB 2 3/4 04/15/25	2.65	-0.03	7 year	2.87	-0.06			
GBP	0.25	0.28	0.54	1.14	GBP	1.06	-0.02	NZGB 4 1/2 04/15/27	2.79	-0.04	10 year	3.13	-0.06			
JPY	-0.04	-0.03	0.04	0.25	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.17	-0.04	15 year	3.38	-0.07			
CAD	0.75	1.17	1.56	2.15	CAD	1.85	0.00	NZGB 2 3/4 04/15/37	3.41	-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: NY close Sat morn.

Source: Bloomberg

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