

14 July 2017

Events Round-Up

NZ: REINZ house sales (y/y%), Jun: -24.7 vs. 18.4 prev.
NZ: Food prices (m/m%), Jun: 0.2 vs. 2.4 prev.
NZ: ANZ consumer confidence, Jul: 125.4 vs. 127.8 prev.
CH: Imports (\$, y/y%), Jun: 17.2 vs. 14.5 exp.
CH: Exports (\$, y/y%), Jun: 11.3 vs. 8.9 exp.
CH: Trade balance (\$b), Jun: 42.8 vs. 42.6 exp.
GE: CPI EU harmonised (y/y%), Jun F: 1.5 vs. 1.5 exp.
US: PPI final demand (m/m%), Jun: 0.1 vs. 0.0 exp.
US: PPI ex food and energy (m/m%), Jun: 0.1 vs. 0.2 prev.

Good Morning

The NZD and AUD have outperformed for the second day running on a day where risk sentiment is slightly improved, with the VIX index back down to 10 and bond yields are higher.

NZD, AUD and SEK have all made notable gains in the order of 0.7-0.8% over the past 24 hours. The Swedish Krona is stronger after CPI inflation figures came in slightly higher than expected, with the core rate up to 1.9%, supporting the Riksbank's move earlier this month to drop its easing bias.

It's less obvious why the NZD and AUD should be at the head of the leaderboard. China export and import data were both stronger than expected, but the upward move in the Antipodean currencies was well in train prior to that release. In NZ, REINZ housing market data showed further softness in house sales and house price inflation, a trend that got the RBNZ's attention leading up to the May MPS that tripped up market expectations. And food price data didn't deviate from our expectations, cementing in expectations for a low Q1 CPI outturn in next Tuesday's release, at just 0.1% q/q and the annual rate expected to dip to 1.8% from 2.2%. The headline ANZ consumer confidence index fell, although on a seasonally adjusted basis it remained strong.

Certainly, it is hard to see any fundamental reason why the NZD was on a tear, up as much as 1.4% for the session when it spiked up to 0.7369 late last night, before settling down to 0.7325. The NZD has struggled to make any sustainable headway up through 0.73 over the past month so the current level represents an area of strong resistance.

The AUD followed a similar pattern, absent the spike, and currently sits at 0.7730. Like the NZD, this area is a key level of resistance – it's been here on at least ten separate occasions over the past year and has struggled to break much through 0.7750 over that time. NZD/AUD sits at 0.9475, up slightly for the day, after the earlier spike to 0.9525.

The USD majors index is flat, with Yellen's second appearance before lawmakers not adding much new, while PPI figures were broadly in line with expectations. The focus turns to tonight's important US CPI data. The market will be more sensitive to inflation data than normal, with the data now attributed a big weight in the Fed's reaction function. After three misses in a row to the downside, a break in this trend is required to keep the Fed on course to continue along its path of normalising monetary policy.

EUR is continuing to struggle to make further gains and sits flat around 1.14. It looks like recent buying pressure is exhausted and traders are sitting on long positions, awaiting better reasons to take it up any further. The currency was on a steady downward path until news hit the screen that ECB President Draghi is now scheduled to speak at the Fed's Jackson Hole conference next month, an event that has some history of central bankers using it to signal significant policy initiatives. Some speculate that he might use that forum to lay the groundwork for the ECB to announce QE tapering in September.

That news sent German bond yields higher. The 10-year Bunds yield was drifting lower prior to the announcement and subsequently rose by 5bps to 0.60%, their highest level in over 18 months. The move cascaded through other markets, with the US 10-year rate rising from 2.31% to 2.35%, reversing yesterday's post Yellen testimony move. Ranges should now remain tight as the market awaits the US CPI data tonight.

NZ rates fell yesterday, with the 2-year swap rate falling 2.5bps to 2.27% – now down over 10bps from its high earlier this month – and the 10-year rate falling 4bps to 3.335%. This reflected the offshore move in the previous trading session, and supported by the local data releases mentioned earlier. Over recent sessions the reversal of rates now sees the first RBNZ tightening (fully priced) pushed out to June 2018. While some from offshore have speculated that the RBNZ will join in the chorus of central banks changing their bias and indicating removal of policy accommodation, we don't believe that will happen

anytime soon. If anything, inflation is tracking below the RBNZ's May projections, and next week's CPI data should confirm that.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Manufacturing PMI	Jun		58.5	10:30
US CPI (m/m%)	Jun	0.1	-0.1	00:30
US CPI ex food and energy (m/m%)	Jun	0.2	0.1	00:30
US CPI (y/y%)	Jun	1.7	1.9	00:30
US CPI ex food and energy (y/y%)	Jun	1.7	1.7	00:30
US Retail sales advance (m/m%)	Jun	0.1	-0.3	00:30
US Retail sales ex auto, gas (m/m%)	Jun	0.4	0.0	00:30
US Industrial production (m/m%)	Jun	0.3	0.0	01:15
US Fed's Kaplan Speaks in Mexico City				01:30
US U. of Mich. Sentiment	Jul P	95.0	95.1	02:00
US U. of Mich. 5-10yr inflation exps.	Jul P		2.5	02:00

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	0.7323	+0.8	0.7285	0.7369	CHF	0.9671	+0.2	S&P 500	2,447	+0.2	13.7	Oil (Brent)	48.35	+1.3
AUD	0.7733	+0.7	0.7694	0.7740	SEK	8.355	-0.7	Dow	21,559	+0.1	17.3	Oil (WTI)	45.96	+1.1
EUR	1.1403	-0.1	1.1371	1.1456	NOK	8.257	-0.3	Nasdaq	6,271	+0.2	25.3	Gold	1218.6	-0.1
GBP	1.2941	+0.4	1.2896	1.2955	HKD	7.808	-0.0	Stoxx 50	3,528	+0.4	20.6	HRC steel	620.0	-0.6
JPY	113.19	+0.0	112.88	113.47	CNY	6.784	-0.1	FTSE	7,413	-0.0	11.1	CRB	174.3	+0.3
CAD	1.2728	-0.2			SGD	1.375	-0.2	DAX	12,641	+0.1	27.3	Wheat Chic.	511.8	-4.7
NZD/AUD	0.9470	+0.0			IDR	13,348	-0.2	CAC 40	5,235	+0.4	20.8	Sugar	14.14	+4.8
NZD/EUR	0.6422	+0.9			THB	33.94	-0.0	Nikkei	20,100	+0.0	22.7	Cotton	66.54	-2.3
NZD/GBP	0.5659	+0.4			KRW	1,136	-0.8	Shanghai	3,218	+0.6	5.4	Coffee	131.2	+2.8
NZD/JPY	82.89	+0.9			TWD	30.36	-0.3	ASX 200	5,737	+1.1	6.0	WM powder	3135.0	+0.2
NZ TWI	78.47	+0.6			PHP	50.54	-0.2	NZX 50	7,611	+0.3	7.5			
Interest Rates													Australian Futures	
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	Last		
USD	1.25	1.30	1.60	2.29	USD	2.34	0.03	NZGB 3 04/15/20	2.20	-0.05	1 year	2.05	-0.01	
AUD	1.50	1.70	1.93	2.89	AUD	2.69	-0.03	NZGB 6 05/15/21	2.33	-0.05	2 year	2.27	-0.02	
NZD	1.75	1.97	2.27	3.34	NZD	2.94	-0.06	NZGB 5 1/2 04/15/23	2.61	-0.05	5 year	2.83	-0.04	
EUR	0.00	0.06	-0.13	0.94	GER	0.60	0.02	NZGB 2 3/4 04/15/25	2.82	-0.06	7 year	3.09	-0.04	
GBP	0.25	0.29	0.66	1.34	GBP	1.30	0.04	NZGB 4 1/2 04/15/27	2.94	-0.06	10 year	3.34	-0.04	
JPY	-0.05	-0.01	0.05	0.29	JPY	0.08	-0.01	NZGB 3 1/2 04/14/33	3.28	-0.06	15 year	3.58	-0.04	
CAD	0.75	1.17	1.56	2.23	CAD	1.93	0.05	NZGB 2 3/4 04/15/37	3.50	-0.06				

* 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 06:50

Source: Bloomberg

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