

14 June 2017

Events Round-Up

AU: NAB business conditions, May: 12 vs. 13 prev.

UK: CPI (y/y%), May: 2.9 vs. 2.7 exp.

UK: CPI core (y/y%), May: 2.6 vs. 2.3 exp.

GE: ZEW survey expectations, Jun: 18.6 vs. 21.7 exp.

US: NFIB small business opt., May: 104.5 vs. 104.5 exp.

US: PPI final demand (y/y%), May: 2.4 vs. 2.3 exp.

US: PPI ex food and energy (y/y%), May: 2.1 vs. 1.9 exp.

Good Morning

In the currency space, GBP and the CAD remain in the spotlight, with both showing good gains against the USD. But markets are generally trading water ahead of the FOMC announcement due tomorrow morning and UST rates are little changed.

GBP is showing signs of recovering and is about 100 pips higher from the 1.2640 level that proved to be an area of support. It currently sits 0.7% higher for the day at 1.2750. NZD/GBP has peeled away from above the 0.57 mark down to 0.5670. There is some pressure on PM May to adopt a "softer" Brexit approach in negotiations with the EU that are due to begin shortly and this would be one factor providing some support to GBP. In economic news, UK inflation rose to its highest level in four years and surprised to the upside. While this puts any further easing out of play by the BoE, which meets again this week, it adds to the weak outlook for consumer spending, with real wages falling. UK 10-year gilts finally showed some upward pressure, rising by 7bps to 1.03%, with higher inflation and expectations of less fiscal austerity ahead contributing. Yields still look way too low considering inflation, political risk and the fiscal outlook.

The CAD showed further strength, adding to yesterday's gains after Deputy Governor Wilkins signalled a surprise move to a tightening bias in a speech. Governor Poloz reaffirmed that view in a radio interview overnight, saying that rates have been "extraordinarily low" and that rate cuts "have done their job." Last week, net speculative positioning in the CAD had been near a record low, so a classic short squeeze has emerged. USD/CAD fell by another 0.7% to 1.3230, taking the two-day loss to 1.8%. NZD/CAD is down to 0.9560, a 2-cents fall from only a couple of days ago but back to where it began the month.

The NZD itself has nudged up a bit to 0.7225, with the technical resistance level of 0.7250 still firmly in sight.

There has been no news to drive the NZD – indeed NZ specific news has been absent for the best part of a month – but the positive risk appetite and commodity prices backdrop remain supportive. The S&P500 continues to flirt with recent record highs, while the VIX index is heading lower again after the recent technology sector collapse caused some temporary anxiety.

Elsewhere in the currency space there is little else to report, with the AUD, JPY and EUR all showing no change against the USD. The Nordic currencies have shown some life, with NOK supported by slightly higher oil prices and SEK up on stronger-than-expected inflation and many wondering when the Riksbank will capitulate on its over-easy policy stance.

The US rates market has been trading water ahead of the FOMC announcement, with the 10-year rate trading in a tight 2bps range of 2.20-2.22%. The local rates market barely showed any yield movement yesterday either.

The market is positioned for a "dovish hike" by the Fed so we think the balance of risk post the meeting is for upside to US rates and the USD. Changing personnel will mean interpreting the dot plot of rate hikes ahead will be hazardous. The removal of known dove Powell could serve to lift the median expectation of rate hikes for next year without anyone else changing their view. Overall, with unemployment rate significantly surprising to the downside over the past quarter, we don't see the Fed deviating much from their previous message of cautiously raising rates in the years ahead. Recent weakness in inflation should be acknowledged, but seen as transitory.

After tomorrow's widely anticipated rate hike is delivered, current market expectations see only 1½ more hikes through to the end of next year compared to the March FOMC median of 4 more hikes by end-2018. The market will also be paying attention to any comments on balance sheet normalisation, which is likely to get underway this year, the only question being how soon? Overall, it feels that the market is currently under-pricing the chance of higher rates.

The economic calendar picks up a gear, with some focus on China's data dump today and US CPI and retail sales data ahead of the key FOMC announcement at 6am tomorrow morning.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ Food prices (m/m%)	May		-0.8	10:45
NZ Current account (% of GDP)	Q1	-2.7	-2.7	10:45
AU Westpac consumer confid	Jun		98.0	12:30
CH Retail sales (y/y%)	May	10.7	10.7	14:00
CH Fixed assets (y/y%)	May	8.8	8.9	14:00
CH Industrial production (y/y%)	May	6.4	6.5	14:00
UK ILO unemployment rate (%)	Apr	4.6	4.6	20:30
EC Industrial production (m/m%)	Apr	0.5	-0.1	21:00
US CPI (m/m%)	May	0.0	0.2	00:30
US CPI ex food and energy (m/m%)	May	0.2	0.1	00:30
US Retail sales advance (m/m%)	May	0.0	0.4	00:30
US Retail sales ex auto, gas (m/m%)	May	0.3	0.3	00:30
US FOMC rate decision (%)	Jun	1-1.25	0.75-1	06:00

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	0.7226	+0.4	0.7209	0.7228	CHF	0.9684	-0.0		S&P 500	2,439	+0.4	17.3	Oil (Brent)	48.68	+0.8
AUD	0.7541	+0.0	0.7524	0.7558	SEK	8.694	-0.6		Dow	21,325	+0.4	20.3	Oil (WTI)	46.42	+0.7
EUR	1.1212	+0.1	1.1185	1.1225	NOK	8.429	-0.5		Nasdaq	6,213	+0.6	28.1	Gold	1266.9	+0.1
GBP	1.2755	+0.8	1.2642	1.2756	HKD	7.798	-0.0		Stoxx 50	3,558	+0.4	24.7	HRC steel	598.0	+1.2
JPY	109.95	+0.0	109.92	110.27	CNY	6.799	+0.0		FTSE	7,500	-0.2	24.1	CRB	175.8	-0.1
CAD	1.3230	-0.7			SGD	1.381	-0.3		DAX	12,765	+0.6	32.2	Wheat Chic.	459.3	+2.4
NZD/AUD	0.9582	+0.4			IDR	13,291	-0.1		CAC 40	5,262	+0.7	24.5	Sugar	13.79	-1.6
NZD/EUR	0.6445	+0.3			THB	33.91	-0.4		Nikkei	19,899	-0.0	25.5	Cotton	74.48	-0.9
NZD/GBP	0.5665	-0.4			KRW	1,128	+0.1		Shanghai	3,154	+0.4	11.0	Coffee	128.7	-0.9
NZD/JPY	79.45	+0.4			TWD	30.23	+0.1		ASX 200	5,773	+1.7	10.9	WM powder	3120.0	+0.0
NZ TWI	77.91	+0.3			PHP	49.55	-0.1		NZX 50	7,440	+0.1	8.9	Australian Futures		
Interest Rates												3 year bond	98.245	0.00	
												10 year bond	97.58	0.03	
Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields						
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day		Last		Last				
USD	1.00	1.24	1.56	2.18	USD	2.21	-0.01	NZGB 3 04/15/20	2.09	0.00	1 year	2.01	0.00		
AUD	1.50	1.72	1.78	2.65	AUD	2.40	-0.00	NZGB 6 05/15/21	2.19	-0.00	2 year	2.20	-0.01		
NZD	1.75	1.94	2.20	3.17	NZD	2.79	0.01	NZGB 5 1/2 04/15/23	2.47	0.00	5 year	2.69	-0.00		
EUR	0.00	0.06	-0.18	0.76	GER	0.27	0.02	NZGB 2 3/4 04/15/25	2.68	0.01	7 year	2.93	-0.00		
GBP	0.25	0.29	0.49	1.11	GBP	1.03	0.07	NZGB 4 1/2 04/15/27	2.79	0.01	10 year	3.17	-0.00		
JPY	-0.05	-0.01	0.05	0.25	JPY	0.06	0.01	NZGB 3 1/2 04/14/33	3.09	0.01	15 year	3.42	-0.01		
CAD	0.50	1.17	1.25	1.89	CAD	1.57	0.08								

* 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 06:40

Source: Bloomberg

Contact Details

New Zealand	Jason Wong	Senior Market Strategist	+(64 4) 924 7652
Australia	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
London	Nick Parsons	Head of Research, UK & Europe	+(44 0) 20 7710 2993
	Gavin Friend	Senior Market Strategist	+(44 0) 20 7710 0898

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