

14 June 2018



Events Round-Up

NZ: Food prices, m/m%, May: 0.0 vs. 0.1 prev.

AU: Westpac consumer conf, Jun: 102.1 vs. 101.8 prev.

UK: CPI core (y/y%), May: 2.1 vs. 2.1 exp.

EC: Industrial production (m/m%), Apr: -0.9 vs. -0.7 exp.

US: PPI ex food and energy (y/y%), May: 2.4 vs. 2.3 exp.

US: FedFunds target range (%), Jun: 1.75-2 vs. 1.75-2 exp.

Good Morning

The USD was weaker heading into this morning's FOMC announcement but has recovered after a more hawkish statement was delivered. UST yields are slightly higher post the announcement.

Looking at the difference in the new statement compared to May, the language is all in the direction of being more hawkish. All references to recent data were upgraded, including removal of the comment that measures of inflation compensation (ie wages) remain low. The previous reference to further gradual "adjustment" in the Fed Funds rate was upgraded to further gradual "increases", emphasising that rates are going up, not down. The Statement also removed the previous final paragraph in its entirety regarding the monitoring of inflation developments, and reference to the policy rate remaining below the long term level for some time.

The median dot plot showed a projected Fed Funds track 25bps higher than previously for 2018 and 2019, but that simply reflected an upgrading of view of just one member. So officially the median FOMC member expects 4 rate hikes for 2018 and 3 rate hikes for 2019. The mean projected Fed Funds rate barely changed across all horizons.

The USD was weaker heading into the announcement, down 0.2% for the day but piled on 0.5% post the announcement. This saw the NZD fall from 0.7050 down to a low of 0.6975 and all the other majors reversing course as well. Moves in NZD crosses have been fairly insignificant. The NZD has slightly outperformed the AUD, seeing NZD/AUD up to 0.9270 after reaching as high as 0.9288 overnight.

The rates reaction to the FOMC announcement was an increase across the curve, with the 2-year rate up 5bps to 2.60%, a fresh high for the cycle, and the 10-year rate up

5bps to 3.00%. The S&P500 spent most of the day in positive territory before the Statement and is now down by 0.2%.

Fed Chair Powell's press conference is still underway as we write. Upfront he confirmed yesterday's rumour that press briefings will be held after every Fed meeting starting next year. This raises some speculation that every meeting becomes live for a possible adjustment to rates as it offers the chance for the Fed to explain its move in an open forum.

In other news overnight, US PPI inflation figures were slightly higher than expected, UK CPI inflation was in line, while the run of weaker euro-area data continued, with industrial production falling by more than expected in April. Market reaction to these data were limited, with the market more interested in the FOMC.

In US/North Korea developments, US Secretary of State Pompeo said that the US hopes to achieve "major disarmament" of North Korea's nuclear arsenal during Trump's first term of office. Policy analysts remain sceptical that much has changed since the summit, given the lack of detail in the signed agreement.

The WSJ reports that the US is preparing with tariffs on goods from China, with the decision awaiting Trump's final approval. The US is preparing a honed list of goods subject to tariffs on Friday. The story is still breaking and we await further detail but the initial market reaction was the USD losing some of its post-FOMC gains and the NZD moved back above 0.70. The US 10-year rate slipped from 3.00% to 2.98% after that breaking news.

The data calendar is full in the day ahead with key data in Australia and China today, and UK and US retail sales data tonight. Focus, however, will be directed towards the ECB announcement and President Draghi's press conference. The ECB is expected to take another inch forward with its policy messaging, this time indicating some next steps in considering the end of its quantitative easing programme. Some Governing Council members publicly suggested such last week, which helped support EUR. Buying bonds every week makes little sense to us and QE policy is well past its best-before date.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Employment change ('000)	May	19.0	22.6	13:30
AU	Unemployment rate (%)	May	5.5	5.6	13:30
CH	Retail sales (y/y%)	May	9.6	9.4	14:00
CH	Industrial production (y/y%)	May	7.0	7.0	14:00
CH	Fixed assets investment (y/y%)	May	7.0	7.0	14:00
NZ	NZ plans to sell \$200m 2025 bonds				14:05
UK	Retail sales ex auto fuel (m/m%)	May	0.3	1.3	20:30
UK	Retail sales inc auto fuel (m/m%)	May	0.5	1.6	20:30
EC	ECB deposit facility rate (%)	Jun	-0.4	-0.4	23:45
US	Retail sales ex auto and gas (m/m%)	May	0.4	0.3	00:30

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	0.7006	-0.0	0.7003	0.7053	CHF	0.9846	-0.1	S&P 500	2,787	-0.2	14.2	Oil (Brent)	76.74	+1.0
AUD	0.7556	-0.2	0.7561	0.7609	SEK	8.613	-0.2	Dow	25,314	-0.1	18.7	Oil (WTI)	66.77	+0.4
EUR	1.1774	+0.2	1.1730	1.1793	NOK	8.010	-0.4	Nasdaq	7,732	+0.2	24.3	Gold	1296.9	-0.2
GBP	1.3358	-0.1	1.3308	1.3390	HKD	7.849	+0.0	Stoxx 50	3,480	+0.1	-2.2	HRC steel	897.0	-1.2
JPY	110.53	+0.1	110.34	110.72	CNY	6.398	-0.1	FTSE	7,704	-0.0	2.7	CRB	200.2	-0.0
CAD	1.3000	-0.1			SGD	1.335	+0.0	DAX	12,891	+0.4	1.0	Wheat Chic.	532.8	-3.1
NZD/AUD	0.9272	+0.2			IDR	13,932	+0.2	CAC 40	5,453	+0.1	3.6	Sugar	12.51	+1.3
NZD/EUR	0.5950	-0.2			THB	32.11	+0.2	Nikkei	22,966	+0.4	15.5	Cotton	94.03	-1.5
NZD/GBP	0.5245	+0.2			KRW	1,086	+0.8	Shanghai	3,050	-1.0	-2.6	Coffee	118.6	-0.8
NZD/JPY	77.44	+0.1			TWD	29.89	+0.1	ASX 200	6,024	-0.5	3.3	WM powder	3155.0	+0.0
NZD/CAD	0.9108	-0.1			PHP	53.26	+0.3	NZX 50	8,977	+0.2	20.0	Australian Futures		
NZ TWI	74.13	+0.5										3 year bond	97.795	0.03
												10 year bond	97.21	0.03
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.75	2.34	2.82	3.02	USD	2.95	-0.01	NZGB 6 05/15/21	2.06	0.01	1 year	2.10	0.01	
AUD	1.50	2.07	2.11	2.94	AUD	2.78	-0.03	NZGB 5 1/2 04/15/23	2.34	0.01	2 year	2.25	0.01	
NZD	1.75	2.01	2.25	3.20	NZD	2.82	0.01	NZGB 2 3/4 04/15/25	2.63	0.01	5 year	2.71	0.00	
EUR	0.00	0.06	-0.13	1.00	GER	0.48	-0.01	NZGB 4 1/2 04/15/27	2.82	0.01	7 year	2.96	0.00	
GBP	0.50	0.63	1.02	1.59	GBP	1.37	-0.03	NZGB 3 04/20/29	3.00	0.02	10 year	3.20	0.00	
JPY	-0.07	-0.04	0.05	0.27	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.19	0.03	15 year	3.47	0.00	
CAD	1.25	1.17	2.26	2.69	CAD	2.30	0.01	NZGB 2 3/4 04/15/37	3.34	0.02				

* 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 07:00

Source: Bloomberg

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