

15 August 2017

Events Round-Up

NZ: Performance of services index, Jul: 56.0 vs. 58.3 prev.

NZ: Real retail sales (q/q%), Q2: 2.0 vs. 0.7 prev.

JN: GDP (q/q%), Q2: 1.0 vs. 0.6 exp.

CH: Retail sales (y/y%), Jul: 10.4 vs. 10.8 exp.

CH: Fixed assets (y/y%), Jul: 8.3 vs. 8.6 exp.

CH: Industrial production (y/y%), Jul: 6.4 vs. 7.1 exp.

EC: Industrial production (m/m%), Jun: -0.6 vs. -0.5 exp.

Good Morning

A quiet start to the week, with the USD reversing Friday's declines and risk sentiment improving after last week's sell-off.

Key US and European equity market indices are up around 1% and the VIX index is back down to 12.5, reversing some of last week's price action. There have been no further developments on US-North Korea political tensions and traders have taken the opportunity to buy the dip.

The USD is in the driving seat, rising on all the major crosses and the various USD indices up about 0.3-0.4%, reversing Friday's fall which followed soft CPI data. The currency got a little boost this morning after the Fed's Dudley gave an interview to Associated Press. He kept alive the prospect of the Fed tightening further, saying that his outlook has "little changed since the year began". He backs another rate hike this year if the economy evolves as expected and repeated that an announcement on the Fed's balance sheet would be seen relatively soon.

The NZD sits this morning at 0.7290, down 0.3% from the close at the end of last week. Strong reported retail sales for Q2 had little sustained impact, as the figures were boosted by the Lions' tour. US retail sales data due tonight will be more important than the local version. For the GDT dairy auction overnight, indicators look reasonably constructive following a small price dip at the previous event in early-August. Any push higher would add to the case for farmgate milk prices to be in the high \$6s or early \$7s this season.

With the USD in the driving seat, there has been little change in the crosses. The AUD has slightly underperformed, down 0.5% to 0.7850, helping NZD/AUD tick higher to 0.9280. The AUD has trended lower since the release of softer than expected China activity data, with retail sales, investment, and industrial production all underwhelming for July. This might also be behind a weaker commodity price dynamic, alongside the stronger USD. Oil prices are down about 2½%.

The bond market has had a sleepy start to the week as well. Better risk sentiment sees yields slightly higher across the board. The US 10-year rate has traded in a 2.20-2.23% range, with yields moving near the top of that range after Dudley's comments were reported, up 1-2bps relative to the NZ close. The market remains sceptical that the Fed will deliver another rate hike this year, although the odds have increased to 35%, from 25% at the end of last week.

There's little to say about the NZ rates market yesterday, with the swap curve showing rate increases of 1bp or less. Swap spreads narrowed as NZ government rates rose, including a 5bp increase in the 10-year rate. The market is awaiting an announcement of a new 2029 bond issue syndication that the DMO said would be issued before the end of the year. Some suggest that the preference might be to get this underway before the 23 September general election.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA August meeting minutes				13:30
JN	Industrial production (m/m%)	Jun F		1.6	16:30
GE	GDP (q/q%)	Q2	0.7	0.6	18:00
UK	CPI (m/m%)	Jul	0.0	0.0	20:30
UK	CPI core (y/y%)	Jul	2.5	2.4	20:30
NZ	GDT dairy auction avg. winning price			3343	
US	Retail sales advance (m/m%)	Jul	0.4	-0.2	00:30
US	Retail sales ex auto, gas (m/m%)	Jul	0.4	-0.1	00:30
US	NAHB housing market index	Aug	64	64	02:00

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	0.7293	-0.2	0.7281	0.7320	CHF	0.9721	+1.1	S&P 500	2,466	+1.0	12.9	Oil (Brent)	50.71	-2.7
AUD	0.7855	-0.5	0.7845	0.7898	SEK	8.117	-0.0	Dow	22,005	+0.7	18.5	Oil (WTI)	47.58	-2.6
EUR	1.1783	-0.3	1.1770	1.1838	NOK	7.945	+0.2	Nasdaq	6,338	+1.3	21.1	Gold	1280.5	-0.6
GBP	1.2970	-0.3	1.2957	1.3018	HKD	7.822	+0.0	Stoxx 50	3,451	+1.3	13.3	HRC steel	621.0	+0.0
JPY	109.66	+0.4	109.43	109.80	CNY	6.671	+0.1	FTSE	7,354	+0.6	6.3	CRB	177.5	-1.2
CAD	1.2719	+0.3			SGD	1.363	+0.1	DAX	12,165	+1.3	13.6	Wheat Chic.	467.5	+0.1
NZD/AUD	0.9285	+0.2			IDR	13,349	-0.1	CAC 40	5,122	+1.1	13.8	Sugar	13.50	+2.3
NZD/EUR	0.6189	+0.0			THB	33.26	+0.1	Nikkei	19,537	-1.0	15.8	Cotton	68.50	-0.8
NZD/GBP	0.5623	-0.0			KRW	1,140	-0.3	Shanghai	3,237	+0.9	3.6	Coffee	140.5	-2.3
NZD/JPY	79.98	+0.1			TWD	30.29	-0.2	ASX 200	5,730	+0.7	3.4	WM powder	3300.0	+0.0
NZ TWI	77.12	-0.1			PHP	51.23	+0.4	NZX 50	7,762	+0.6	5.1	Australian Futures		
												3 year bond	98.05	-0.01
												10 year bond	97.38	-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			
USD	1.25	1.32	1.57	2.17	USD	2.22	0.03	NZGB 3 04/15/20	2.03	0.02	1 year	2.01	0.00	
AUD	1.50	1.69	1.90	2.80	AUD	2.62	0.03	NZGB 6 05/15/21	2.16	0.03	2 year	2.16	0.01	
NZD	1.75	1.97	2.16	3.13	NZD	2.84	0.05	NZGB 5 1/2 04/15/23	2.45	0.04	5 year	2.63	0.01	
EUR	0.00	0.06	-0.18	0.84	GER	0.41	0.02	NZGB 2 3/4 04/15/25	2.70	0.04	7 year	2.88	0.01	
GBP	0.25	0.28	0.55	1.15	GBP	1.07	0.01	NZGB 4 1/2 04/15/27	2.84	0.05	10 year	3.13	0.01	
JPY	-0.03	-0.03	0.03	0.24	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.22	0.05	15 year	3.39	0.01	
CAD	0.75	1.17	1.57	2.18	CAD	1.88	0.02	NZGB 2 3/4 04/15/37	3.46	0.05				

* 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 06:38

Source: Bloomberg

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