

15 June 2017

Events Round-Up

NZ: Food prices (m/m%), May: 2.4 vs. -0.8 prev.
NZ: Current account (% of GDP), Q1: -3.1 vs. -2.7 exp.
AU: Westpac consumer confid., Jun: 96.2 vs. 98.0 prev.
CH: Retail sales (y/y%), May: 10.7 vs. 10.7 exp.
CH: Fixed assets (y/y%), May: 8.6 vs. 8.8 exp.
CH: Industrial production (y/y%), May: 6.5 vs. 6.4 exp.
CH: Aggregate financing (CNYb), May: 1060 vs. 1190 exp.
UK: ILO unemployment rate (%), Apr: 4.6 vs. 4.6 exp.
UK: Weekly earnings ex bonus (y/y%), Apr: 1.7 vs. 2.0 exp.
EC: Industrial production (m/m%), Apr: 0.5 vs. 0.5 exp.
US: CPI (m/m%), May: -0.1 vs. 0.0 exp.
US: CPI ex food and energy (m/m%), May: 0.1 vs. 0.2 exp.
US: Retail sales advance (m/m%), May: -0.3 vs. 0.0 exp.
US: Ret. sales ex auto, gas (m/m%), May: 0.0 vs. 0.3 exp.
US: FOMC rate decision (%), Jun: 1-1.25 vs. 1-1.25 exp.

Good Morning

Some much information, so little space and time. The combination of very weak US CPI data and the FOMC Statement with accompanying press conference has seen a big swing in UST yields and the USD.

It was meant to be a quiet session ahead of the FOMC this morning, but some weak US data threw a spanner in the works. US CPI inflation and retail sales undershot expectations. The latter can be explained by some prior upward revisions, but the soft inflation reading was the third weak monthly reading in a row, taking the annual increase to 1.7% y/y, a two-year low.

The soft inflation figure set the scene for a strong rally in US treasuries, taking the 10-year rate down about 10bps to a fresh low for the year of 2.11% and the USD came under pressure.

The Fed announcement itself and economic and rate projections seemed to be closely aligned to market expectations. The well-anticipated 25bp hike was delivered and the dot plot of rate projections showed little change to the median, suggesting one more hike this year, and three more in 2018 and in 2019. These projections remain well above market expectations, which see less than 1½ hikes priced in before the end of next year.

The key line in the statement was the committee “monitoring inflation developments closely”, a nod to recent soft inflation data and that outturns going forward would play a crucial role in the path of policy ahead. On reducing the size of the balance sheet, the Fed said that balance-sheet roll-off caps would start at \$10b/month (\$6b of Treasuries and \$4b of MBS) sometime this year, rising towards \$30b and \$20b respectively after a year. No end-target balance sheet size was provided at this stage.

After the Statement, UST yields nudged up, while the USD lifted off the post-CPI lows. Fed Chair Yellen gave some fuel for the market reversal as she noted that (low) inflation reflected some one-off price reductions and the FOMC expected inflation to head higher. After such soft inflation data, the market was looking for Yellen to capitulate on the medium-term outlook for inflation and rates but she hasn't so far. As I write, the 10-year rate has lifted to 2.14%, still down some 6bps from the NZ close. The USD majors index was down as much as 0.7% at one stage but is now flat for the day.

As the USD plunged post the CPI data, the NZD broke through the 0.7250 technical resistance level to a high of 0.7318, before seeing some selling pressure emerge. It has been falling as Yellen speaks and it currently sits around 0.7255. The AUD also outperformed, rising to around 0.7635 and currently sits at 0.7585.

GBP underperformed as wage data undershot expectations, suggesting a larger fall in real wages, that won't be supporting consumer spending anytime soon. GBP got to as high as 1.2818 but is now flat for the day at 1.2750. EUR almost reached 1.13, but the rally has now been fully unwound.

JPY essentially followed the move in UST yields, falling as low as 108.83 with UST yields at their nadir and climbing back to 109.60 as yields reversed course.

In other news, oil prices fell to their lowest level in more than a month as US gasoline inventories rose and the IEA said that new production from OPEC's rivals will be more than enough to meet growth in demand next year. WTI crude is down about 3½% to below USD 45. This has seen the CAD underperform, with USD/CAD up 0.1% to 1.3260 and NZD/CAD up 0.6% to 0.9620.

There is plenty of other economic news and events in the day ahead. In the local session, we expect Q1 NZ GDP to show underwhelming growth, although strength in nominal GDP, fuelled by strong terms of trade, is a better

indicator of recent economic performance.

The Bank of England is expected to keep policy unchanged tonight. It is likely prepared to look through recent GBP-fuelled strength in inflation as the UK economic outlook looks fairly depressed amidst falling real wages for consumers and uncertainty for businesses.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ GDP (q/q%)	Q1	0.7	0.4	10:45
AU Employment change ('000)	May	10.0	37.4	13:30
AU Unemployment rate (%)	May	5.7	5.7	13:30
NZ New Zealand plans to sell \$150m 2025 Bonds				14:05
UK Retail sales ex auto, fuel (m/m%)	May	-1.0	2.0	20:30
UK Bank of England bank rate (%)		0.25	0.25	23:00
UK BOE asset purchase target (£b)		435	435	23:00
US Philadelphia Fed business outlook	Jun	25.0	38.8	00:30
US Industrial production (m/m%)	May	0.2	1.0	01:15
US NAHB housing market index	Jun	70	70	02:00

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	0.7255	+0.5	0.7222	0.7318	CHF	0.9720	+0.3		Oil (Brent)	47.01	-3.5		
AUD	0.7583	+0.6	0.7542	0.7636	SEK	8.701	+0.1		Oil (WTI)	44.75	-3.7		
EUR	1.1218	+0.1	1.1198	1.1296	NOK	8.424	-0.1		Gold	1266.2	+0.0		
GBP	1.2748	-0.0	1.2724	1.2818	HKD	7.798	+0.0		HRC steel	590.0	-1.0		
JPY	109.60	-0.4	108.83	110.34	CNY	6.792	-0.1		CRB	173.0	-1.6		
CAD	1.3259	+0.1			SGD	1.376	-0.4		Wheat Chic.	457.3	-0.4		
NZD/AUD	0.9567	-0.1			IDR	13,277	-0.1		Sugar	13.62	-1.2		
NZD/EUR	0.6467	+0.4			THB	33.88	-0.2		Cotton	73.50	-1.3		
NZD/GBP	0.5691	+0.5			KRW	1,124	-0.4		Coffee	127.8	-0.7		
NZD/JPY	79.51	+0.0			TWD	30.22	-0.0		W/M powder	3110.0	-0.3		
NZ TWI	78.04	+0.3			PHP	49.50	-0.1		Australian Futures				
									3 year bond	98.265	0.03		
									10 year bond	97.64	0.06		
Interest Rates					NZ Government Bonds				NZ Swap Yields				
	Swap Yields				Benchmark 10 Yr Bonds		Last			Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	1.25	1.25	1.53	2.12	USD	2.14	-0.07	NZGB 3 04/15/20	2.09	0.00	1 year	2.01	0.00
AUD	1.50	1.72	1.79	2.63	AUD	2.40	0.01	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	0.00	NZGB 5 1/2 04/15/23	2.47	0.00	5 year	2.70	0.00
EUR	0.00	0.06	-0.19	0.73	GER	0.23	-0.04	NZGB 2 3/4 04/15/25	2.68	0.00	7 year	2.94	0.00
GBP	0.25	0.29	0.45	1.02	GBP	0.93	-0.11	NZGB 4 1/2 04/15/27	2.79	0.00	10 year	3.17	0.01
JPY	-0.05	-0.01	0.05	0.24	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.10	0.01	15 year	3.43	0.00
CAD	0.50	1.17	1.22	1.84	CAD	1.51	-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 07:11

Source: Bloomberg

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