

15 May 2017

## Events Round-Up

NZ: REINZ house sales (y/y%), Apr: -31.0 vs. -10.7 prev.  
 NZ: Manufacturing PMI, Apr: 56.8 vs. 57.8 prev.  
 CH: Aggregate financing (CNYbn): 1390 vs. 1150 exp.  
 GE: GDP (q/q%), 1Q P: 0.6 vs. 0.6 prev.  
 GE: CPI EU harmonised (y/y%), Apr F: 2.0 vs. 2.0 prev.  
 EC: Industrial production (m/m%), Mar: -0.1 vs. 0.3 exp.  
 US: CPI (m/m%), Apr: 0.2 vs. 0.2 exp.  
 US: CPI ex food and energy (m/m%), Apr: 0.1 vs. 0.2 exp.  
 US: CPI ex food and energy (y/y%), Apr: 1.9 vs. 2.0 exp.  
 US: Retail sales advance (m/m%), Apr: 0.4 vs. 0.6 exp.  
 US: Retail sales ex auto, gas (m/m%), Apr: 0.3 vs. 0.4 exp.  
 US: U. of Mich. sentiment, May P: 97.7 vs. 97.0 exp.  
 US: U. of Mich. 5-10yr inflat. exp., May P: 2.3 vs. 2.4 prev.

## Good Morning

Amidst a number of economic releases on Friday, only softer US inflation and retail sales data managed to move the market, resulting in a weaker USD and lower UST yields.

The USD major currency index fell by 0.3%, after data showed CPI ex food and energy inflation undershooting market expectations, with the annual increase of 1.9% in April the weakest reading in 18 months. Released at the same time, the pick-up in retail sales in April after a weak March was weaker than expected, although positive upward revisions eased some concern. Although not market moving, the University of Michigan 5-10 year inflation expectations series continued to show a declining trend and the 2.3% reading equalling the record low for the series set at the end of last year.

These data raised a question mark over the extent of Fed tightening ahead and yields fell across the curve accordingly. The US 2-year Treasury rate fell by 4bps to 1.29%, while the 10-year rate fell by 6bps to 2.325%, taking it roughly back to where it started the week.

A rate hike in June is still widely anticipated, with CME Group calculations putting the probability at a little under 80%. The Chicago Fed's Evans (voter) was interviewed after the CPI release and he reiterated that he could support two more hikes this year, but added that given the downside risks to inflation, it may be more appropriate to

raise rates just once more if the outlook deteriorates. That said, he still believed that the Fed's projected rate path was more likely compared to current (more cautious) market pricing. The Fed's Harker (voter) also saw two more rate hikes this year as appropriate.

Over Friday's session, all major currencies except for the CAD, managed to gain against the USD, with EUR one of the better performers, up 0.6% to 1.0930.

The NZD traded in a fairly tight range for much of the session, with the soft US data allowing it to close the week nearer its session-high. It ended the week around 0.6865, close to a key area of technical support. It also closed near its high for the session against the AUD, with the cross ending the week just under 0.93.

The RBNZ's purposeful easing of monetary conditions on Thursday will remain forefront of mind for traders in the week ahead, which looks fairly uneventful when considering the light economic calendar. The 0.6850 level will be watched closely for any sustained break lower. If that can hold we might see some consolidation in the high 0.60s, while the technicians will be eyeing up the 0.6675 mark if the support level breaks.

The local rates market was still adjusting to the effective easing of monetary policy by the RBNZ. The 2-year swap rate fell by another 4bps to 2.23%, taking the cumulative fall over two days to almost 12bps, and making it the lowest close since November. With the OCR on hold for a prolonged period, the carry of running a received position has some attraction for traders. Further modest downside is possible, but paying interest is likely to emerge below 2.20%. The 5-10 year swap rates were down by 5.5bps, taking them to 2.81% and 3.33% respectively. Further downside pressure to yields is expected today, after Friday's US rally in Treasuries.

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## Coming Up

	Period	Cons.	Prev.	NZT
NZ Performance services index	Apr		59	10:30
NZ Retail sales ex inflation (q/q%)	1Q	0.9	0.8	10:45
AU Home loans (m/m%)	Mar	0.0	-0.5	13:30
CH Retail sales (y/y%)	Apr	10.8	10.9	14:00
CH Fixed assets (y/y%)	Apr	9.1	9.2	14:00
CH Industrial production (y/y%)	Apr	7.0	7.6	14:00
NZ RBNZ Assistant Governor McDermott Speaks				17:00
US NAHB housing market index		68	68	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	0.6856	-1.2	0.6828	0.6864	CHF	1.0070	-0.2	S&P 500	2,394	-0.2	16.0	Oil (Brent)	50.75	+1.0
AUD	0.7375	+0.1	0.7343	0.7379	SEK	8.880	-0.5	Dow	20,918	-0.1	18.1	Oil (WTI)	47.81	+1.0
EUR	1.0868	+0.0	1.0839	1.0893	NOK	8.602	-0.2	Nasdaq	6,114	-0.2	28.4	Gold	1224.0	+0.4
GBP	1.2886	-0.4	1.2850	1.2949	HKD	7.790	+0.0	Stoxx 50	3,624	-0.6	22.6	HRC steel	610.0	+0.0
JPY	113.91	-0.3	113.46	114.25	CNY	6.904	+0.0	FTSE	7,387	+0.0	19.9	CRB	180.4	+0.5
CAD	1.3695	+0.3			SGD	1.408	-0.2	DAX	12,711	-0.4	27.4	Wheat Chic.	433.8	+0.5
NZD/AUD	0.9296	-1.3			IDR	13,346	-0.1	CAC 40	5,383	-0.3	24.7	Sugar	15.63	-1.3
NZD/EUR	0.6308	-1.2			THB	34.71	-0.1	Nikkei	19,962	+0.3	19.9	Cotton	79.18	+3.5
NZD/GBP	0.5321	-0.8			KRW	1,128	-0.7	Shanghai	3,062	+0.3	8.0	Coffee	134.3	-1.8
NZD/JPY	78.10	-1.5			TWD	30.19	-0.2	ASX 200	5,878	+0.0	9.7	WM powder	3150.0	-0.5
NZ TWI	75.05	-1.3			PHP	49.87	-0.2	NZX 50	7,490	+0.9	8.2	<b>Australian Futures</b>		
												3 year bond	98.14	0.01
												10 year bond	97.32	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	1.00	1.18	1.60	2.32	USD	2.40	-0.01	NZGB 3 04/15/20	2.24	-0.08	1 year	2.06	-0.04	
AUD	1.50	1.74	1.83	2.88	AUD	2.65	-0.00	NZGB 6 05/15/21	2.40	-0.07	2 year	2.27	-0.07	
NZD	1.75	1.99	2.29	3.39	NZD	3.03	-0.04	NZGB 5 1/2 04/15/23	2.69	-0.06	5 year	2.87	-0.08	
EUR	0.00	0.06	-0.13	0.84	GER	0.43	0.01	NZGB 2 3/4 04/15/25	2.93	-0.06	7 year	3.13	-0.06	
GBP	0.25	0.31	0.57	1.22	GBP	1.16	-0.01	NZGB 4 1/2 04/15/27	3.03	-0.04	10 year	3.39	-0.04	
JPY	-0.04	0.00	0.04	0.26	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.32	-0.04	15 year	3.66	-0.03	
CAD	0.50	1.17	1.02	1.83	CAD	1.60	-0.04							

\* 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 06:49

Source: Bloomberg

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