

16 August 2017

Events Round-Up

- GE: GDP (q/q%), Q2: 0.6 vs. 0.7 exp.
- UK: CPI (m/m%), Jul: -0.1 vs. 0.0 exp.
- UK: CPI core (y/y%), Jul: 2.4 vs. 2.5 exp.
- NZ: GDT dairy auction avg. winning price: -0.4%
- US: Retail sales advance (m/m%), Jul: 0.6 vs. 0.3 exp.
- US: Retail sales ex auto, gas (m/m%), Jul: 0.5 vs. 0.4 exp.
- US: Empire manufacturing, Aug: 25.2 vs. 10 exp.
- US: NAHB housing market index, Aug: 68 vs. 64 exp.

Good Morning

The USD remains in the box seat, extending yesterday's gains, as geopolitical concerns ease and with strong data providing a supporting role. The NZD, GBP and JPY have underperformed, while global bond yields are higher as safe haven flows reverse.

We reported yesterday morning the influential NY Fed President Dudley's comments on his unchanged outlook, supporting the case for further Fed hikes. This supported a stronger USD and we have seen that move extended over the past 24 hours. Receding concerns about the prospect of US-North Korea military action supported that move and saw previous flows into safe havens reverse. North Korean state media reported that Kim Jong Un decided not to fire on Guam and South Korean President chimed in, vowing to avoid a conflict at any cost.

This backdrop saw a broadly based increase in the USD. It got a further kick up following a trifecta of positive US economic news, but much of that boost has now unwound. US retail sales for July were much stronger than expected and there was a decent upward revision to the previous month. Homebuilder sentiment improved and the Fed's Empire Survey manufacturing survey was much stronger than expected, rising to a 2½ month high.

So the various USD indices sit 0.4-0.5% higher. JPY and GBP have underperformed, the former owing to better risk sentiment and the latter following softer than expected CPI inflation data, adding to the run of weaker UK data and dulling the case for higher policy rates. USD/JPY is up 0.8% to 110.50 while GBP/USD is down 0.8% to 1.2860.

The NZD has also underperformed, down 0.7% to 0.7235 and hovering close to the lows for the session this

morning. The latest GDT dairy auction defied some of the more positive indicators leading up to the auction and showed a slight fall in pricing. But much of the damage to the NZD was done prior to that. We have previously noted the vulnerability to the downside for the NZD, given the lop-sided net long speculative positioning. Last week we published research illustrating that following the last previous four episodes where positioning was so lopsided, the NZD has shown chunky falls over the subsequent 4, 12 and 24 weeks every single time.

The NZD is flat against the underperforming GBP and JPY and is lower on the other crosses, with NZD/AUD down 0.3% to 0.9255 and NZD/EUR down 0.3% to 0.6165.

Easing geopolitical tensions has seen higher global bond rates. The US 10-year rate trended higher through the Asian trading session yesterday and rose about 3bps on the strong retail sales report to as high as 2.28%, before settling down to its current level of 2.26%, up slightly from the NZ close and up 4bps for the day. The combination of Dudley's hawkish comments and the supporting US economic data has increased the probability of the Fed hiking by year-end to 42%. Tomorrow morning sees the release of the FOMC's minutes from the late-July meeting.

Upward pressure on rates via global forces saw rates up about 2-3bps across the NZ swap curve, with the 2-year rate ending the day at 2.18% and the 10-year rate at 3.17%. Upward pressure remained at the long end of the government curve, as the market nervously awaits a possible announcement by the DMO on syndication of the new 2029 issue. The 10-year rate rose by 5bps to 2.90%, taking the gain over the past two sessions to 11bps against the 4bp increase in the swap rate of equivalent maturity.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Wage price index (q/q%)	2Q	0.5	0.5	13:30
NZ Non resident bond holdings (%)	Jul		61.5	15:00
UK ILO unemployment rate (%)	Jun	4.5	4.5	20:30
EC GDP (q/q%)	2Q P	0.6	0.6	21:00
EC GDP (y/y%)	2Q P	2.1	2.1	21:00
US Housing starts ('000)	Jul	1220	1215	00:30
US Building permits ('000)	Jul	1250	1254	00:30
US FOMC meeting minutes				06:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day		
NZD	0.7237	-0.7	0.7230	0.7303	CHF	0.9728	+0.1	S&P 500	2,466	+0.0	12.6	Oil (Brent)	50.85	+0.3
AUD	0.7819	-0.4	0.7808	0.7863	SEK	8.082	-0.4	Dow	21,998	+0.0	18.0	Oil (WTI)	47.61	+0.0
EUR	1.1733	-0.4	1.1687	1.1780	NOK	7.965	+0.2	Nasdaq	6,336	-0.1	20.4	Gold	1272.6	-0.9
GBP	1.2863	-0.8	1.2846	1.2970	HKD	7.824	+0.0	Stoxx 50	3,462	+0.3	13.6	HRC steel	621.0	+0.0
JPY	110.52	+0.8	110.25	110.85	CNY	6.686	+0.2	FTSE	7,384	+0.4	6.4	CRB	176.4	-0.7
CAD	1.2759	+0.3			SGD	1.367	+0.3	DAX	12,177	+0.1	13.4	Wheat Chic.	456.0	-2.7
NZD/AUD	0.9256	-0.3			IDR	13,361	+0.1	CAC 40	5,140	+0.2	14.3	Sugar	13.13	-2.7
NZD/EUR	0.6168	-0.3			THB	33.28	+0.1	Nikkei	19,753	+1.1	19.0	Cotton	67.68	-1.2
NZD/GBP	0.5626	+0.1			KRW	1,135	-0.4	Shanghai	3,251	+0.4	4.5	Coffee	135.6	-3.5
NZD/JPY	79.98	+0.1			TWD	30.30	+0.0	ASX 200	5,757	+0.5	4.1	WM powder	3305.0	+0.0
NZ TWI	76.76	-0.4			PHP	51.41	+0.3	NZX 50	7,814	+0.7	6.9	Australian Futures		
												3 year bond	98.02	-0.02
												10 year bond	97.35	-0.03
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	1.31	1.60	2.21	USD	2.26	0.04	NZGB 3 04/15/20	2.05	-0.00		1 year	2.02	0.01
AUD	1.50	1.69	1.91	2.82	AUD	2.65	0.03	NZGB 6 05/15/21	2.19	0.02		2 year	2.18	0.02
NZD	1.75	1.95	2.18	3.17	NZD	2.90	0.06	NZGB 5 1/2 04/15/23	2.49	0.02		5 year	2.65	0.03
EUR	0.00	0.06	-0.17	0.85	GER	0.43	0.03	NZGB 2 3/4 04/15/25	2.74	0.03		7 year	2.91	0.03
GBP	0.25	0.28	0.55	1.16	GBP	1.08	0.01	NZGB 4 1/2 04/15/27	2.90	0.05		10 year	3.17	0.03
JPY	-0.03	-0.04	0.03	0.24	JPY	0.05	-0.01	NZGB 3 1/2 04/14/33	3.28	0.06		15 year	3.43	0.04
CAD	0.75	1.17	1.58	2.18	CAD	1.90	0.02	NZGB 2 3/4 04/15/37	3.52	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 06:47

Source: Bloomberg

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