

16 June 2017

Events Round-Up

NZ: GDP (q/q%), Q1: 0.5 vs. 0.7 exp.
AU: Employment change ('000), May: 42 vs. 10.0 exp.
AU: Unemployment rate (%), May: 5.5 vs. 5.7 exp.
UK: Ret. sales ex auto, fuel (m/m%) May: -1.6 vs. -1.0 exp.
UK: Bank of England bank rate (%): 0.25 vs. 0.25 exp.
UK: BOE asset purchase target (£b): 435 vs. 435 exp.
US: Philadelphia Fed business out., Jun: 27.6 vs. 24.9 exp.
US: Industrial production (m/m%), May: 0.0 vs. 0.2 exp.
US: NAHB housing market index, Jun: 67 vs. 70 exp.

Good Morning

The moves seen in the aftermath of the Fed's tightening of monetary policy yesterday have extended, with the USD finding supporting and UST yields drifting higher. US equities are softer and the VIX index is higher.

Markets are clearly still digesting the FOMC statement and Chair Yellen's comments. The fact that the Fed stuck to its guns in the face of recent softer inflation data surprised some in the market. But continuing on its path to normalise rates makes a lot of sense considering that financial conditions are actually easier since the Fed began the tightening cycle in late 2015. With no harm done to the economy or markets, the Fed can be pleased that it now has 100bps of extra ammunition should it ever be needed in the next economic downturn.

The USD TWI majors index is up 0.5% for the day, with broadly based gains, taking the post-FOMC meeting gain to 1.0%. The only major currency the USD hasn't been able to rise against is GBP, following the Bank of England meeting. The BoE left policy unchanged, as expected, but the 5-3 vote highlighted an unusually divided committee, with 3 members voting for a rate hike with annual CPI inflation well above target at 2.9%. UK rates lifted across the curve, but the market still believes that a rate hike remains a distant prospect, well into next year. Earlier in the session, retail sales fell by more than expected, highlighting the plight facing consumers as real incomes fall, while the inflationary impact of the plunge in GBP is expected to eventually fade. The UK 10-year rate rose by 11bps to a still-low 1.03%, while GBP rose by around 100pips from around 1.27 to 1.28, before settling around 1.2760.

AUD was well supported after a surprisingly strong labour market report, which saw the unemployment rate drop to

5.5%, its lowest level in four years. The gain to 0.7630 has now been fully unwound by a strong USD, and it currently sits at 0.7580, but the currency has outperformed on many crosses. A soft NZ Q1 GDP report did the NZD no favours and, combined with the stronger USD, it has steadily fallen back down to around the 0.72 mark. After a very strong run since mid-May, the NZD is well overdue for a consolidation phase. Following that we see downside risk as the second half of the year gets underway. NZD/AUD is down a cent off its recent highs and is probing around the 0.95 mark.

A stronger USD sees EUR down 0.6% to 1.1150 and USD/JPY up 1.2% to just under 111. The extent of yen weakness is somewhat surprising, given the mild risk-off tone. The BoJ meets today and isn't expected to spring any surprises. Japan's inflation rate remains well below target and all the BoJ can do is sit back and continue with its yield curve control policy to keep rates around zero and hope for the best. NZD/JPY is closing in on the 80 mark, close to a 3-month high.

US treasury rates are higher across the curve. The 2-year rate is up 2bps to 1.355% and the 10-year rate is up 3bps to 2.16%. Despite higher rates since the FOMC announcement, the market remains unconvinced that the Fed will follow up with another hike in September. Even out to December the odds of another hike are just under 50/50 and less than 1½ hikes are priced in through to the end of next year. By outlining the broad parameters of the balance sheet normalisation strategy, the Fed has an option to begin that process in September, if conditions seem appropriate. We still think that the market underprices the risk of further Fed tightening, but we do need to see some recovery in CPI data before the Fed is likely to move again.

The move lower in local rates yesterday reflected the significant move down in US treasury rates following the soft CPI data ahead of the FOMC meeting. NZ 10-year government bond rate fell by 7bps to 2.72%. Strong bidding interest in the tender of 2025 bonds was evident, with demand far exceeding supply. The swaps curve was lower with the 2-year rate down 3bps to 2.17% and the 10-year rate down 6bps to 3.11%, both at fresh lows for the year. The 2-year rate is near the bottom of the 2.15-2.25% range we see prevailing over coming months. The RBNZ OCR review next week is the next key event risk, but we see that passing without much fanfare. Expect some modest upside pressure to the curve today, following the offshore moves overnight.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Manufacturing PMI	May		56.8	10:30
JN BOJ policy rate	Jun	-0.1	-0.1	
JN BOJ 10-Yr Yield Target	Jun	0.0	0.0	
US Housing starts ('000)	May	1220	1172	00:30
US Building permits ('000)	May	1249	1229	00:30
US U. of Mich. sentiment	Jun P	97.0	97.1	02:00
US U. of Mich. 5-10 Yr inflation	Jun P		2.4	02:00
US Fed's Kaplan Speaks in Dallas				04:45

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**					
Indicative overnight ranges (*)				Other FX				Major Indices				Price					
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day		
NZD	0.7209	-0.7	0.7186	0.7236	CHF	0.9749	+0.4		S&P 500	2,431	-0.3	17.3		Oil (Brent)	46.90	-0.3	
AUD	0.7582	-0.0	0.7568	0.7617	SEK	8.745	+0.5		Dow	21,352	-0.1	21.0		Oil (WTI)	44.40	-0.8	
EUR	1.1153	-0.6	1.1132	1.1222	NOK	8.505	+1.0		Nasdaq	6,158	-0.6	27.4		Gold	1253.0	-1.6	
GBP	1.2759	+0.1	1.2691	1.2795	HKD	7.802	+0.1		Stoxx 50	3,525	-0.6	24.6		HRC steel	590.0	-1.0	
JPY	110.87	+1.2	109.48	110.98	CNY	6.808	+0.2		FTSE	7,419	-0.7	24.3		CRB	172.8	-0.1	
CAD	1.3276	+0.2			SGD	1.384	+0.5		DAX	12,692	-0.9	32.1		Wheat Chic.	469.0	+2.6	
NZD/AUD	0.9508	-0.7			IDR	13,286	+0.1		CAC 40	5,217	-0.8	25.1		Sugar	13.47	-1.1	
NZD/EUR	0.6464	-0.3			THB	33.97	+0.2		Nikkei	19,832	-0.3	28.5		Cotton	71.91	-2.1	
NZD/GBP	0.5650	-0.9			KRW	1,124	+0.0		Shanghai	3,132	+0.1	9.0		Coffee	128.1	+0.2	
NZD/JPY	79.93	+0.5			TWD	30.26	+0.1		ASX 200	5,763	-1.2	12.0		WM powder	3130.0	-0.2	
NZ TWI	77.81	-0.5			PHP	49.71	+0.4		NZX 50	7,516	+0.4	9.1		Australian Futures			
															3 year bond	98.2	-0.03
															10 year bond	97.57	-0.06
Interest Rates								NZ Government Bonds				NZ Swap Yields					
Rates		Swap Yields		Benchmark 10 Yr Bonds				Last		Last		Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day											
USD	1.25	1.25	1.55	2.14	USD	2.16	0.03	NZGB 3 04/15/20	2.07	-0.02	1 year	2.00	-0.00				
AUD	1.50	1.72	1.82	2.66	AUD	2.36	-0.05	NZGB 6 05/15/21	2.15	-0.04	2 year	2.17	-0.03				
NZD	1.75	1.94	2.17	3.11	NZD	2.72	-0.07	NZGB 5 1/2 04/15/23	2.42	-0.05	5 year	2.65	-0.05				
EUR	0.00	0.06	-0.18	0.75	GER	0.28	0.06	NZGB 2 3/4 04/15/25	2.62	-0.06	7 year	2.88	-0.06				
GBP	0.25	0.29	0.53	1.11	GBP	1.03	0.10	NZGB 4 1/2 04/15/27	2.72	-0.07	10 year	3.11	-0.06				
JPY	-0.06	-0.01	0.05	0.25	JPY	0.05	-0.02	NZGB 3 1/2 04/14/33	3.03	-0.07	15 year	3.36	-0.07				
CAD	0.50	1.17	1.24	1.84	CAD	1.52	0.03										

* 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 06:57

Source: Bloomberg

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