

16 May 2017

Events Round-Up

NZ: Performance services index, Apr: 52.8 vs 58.8 prev.

NZ: Retail sales ex inflation (q/q%), Q1: 1.5 vs 0.9 exp.

AU: Home loans (m/m%), Mar: -0.5 vs 0.0 exp.

CH: Retail sales (y/y%), Apr: 10.7 vs 10.8 exp.

CH: Fixed assets (y/y%), Apr: 8.9 vs 9.1 exp.

CH: Industrial production (y/y%), Apr: 6.5 vs 7.0 exp.

US: NAHB housing market index, May: 70 vs 68 exp.

Good Morning

Oil prices jumped higher mid-afternoon yesterday after energy ministers of Saudi Arabia and Russia said they favoured extending oil production cuts by nine months to the end of Q1 2018. Major oil-producers are scheduled to meet later this month. After starting the week around US\$50.80, Brent crude oil prices immediately leapt higher then extended gains overnight to above \$US52.50 before settling back under \$52 currently; up 1.9% on the day.

Equities markets have pushed higher, with the S&P500 currently up circa 0.4% supported by the energy and materials sector. US 10-year Treasury yields have edged a basis point higher, while the USD has remained on the backfoot. The DXY dollar index is around 0.3% lower. US data was mixed overnight with a stronger NAHB housing index but a weaker Empire Manufacturing survey.

Higher oil prices saw commodity currencies back in vogue, although they pared gains as oil came off its highs through the night. The CAD tops the currency leaderboard, currently up 0.5% against the USD at around 1.3640. NOK is up about 0.2%. On the flipside, JPY has underperformed with USD/JPY up 0.3% at 113.70.

The NZD saw little response yesterday to a much softer PSI and relatively muted, although upward, movement on better than expected Q1 retail sales. Overnight, the NZD initially found support from higher oil prices before paring gains. From opening around 0.6850 yesterday, NZD/USD pushed up toward 0.6920 overnight, before pulling back as oil peaked. The NZD continues to lick its wounds from the towelling it received post last week's RBNZ statement. NZD/USD opens this morning around 0.6880 about where we left it late yesterday afternoon.

In contrast to the NZD, the AUD has managed to hold on to some gains overnight, up 0.4% at around 0.7420, with

no lasting impact from yesterday's generally softer Chinese activity data. This sees the NZD/AUD open this morning 0.2% lower at about 0.9270. Little new news is expected from the RBA minutes today.

Global commodity prices have recently been more important for the NZD than NZ specific commodity prices; so keep watching oil. In any case, we are not expecting much change overall at the latest GDT auction overnight tonight, although we do anticipate lower wholemilk powder prices which may give the auction a negative hue.

EUR/USD is up 0.4%, at 1.0980, having tested up toward 1.1000 during the night. A positive meeting between Germany's Merkel and New French President Macron didn't do the single currency any harm.

Global yields have generally edged higher, as oil prices pushed upwards. German 10-year Bund yields rose 3bps while US 10-year Treasuries are currently up 1bp to sit around 2.34%.

A Fed rate hike in June is still widely anticipated, although pricing has eased back slightly to be closer to 70%, according to CME Group calculations, from around 80% a week ago before the softer US CPI data.

The local rates market saw curve flattening yesterday driven by lower long end yields as they took their cues from the previous offshore session. NZ 5-year swap yield closed down 4.5bps to be just under 2.77%, while NZ 10-year swap yield closed down about 5bps at 3.285%. The 10-year swap yield is getting closer to testing its year-to-date low around 3.25%. Meanwhile, the NZ 2-year swap yield declined a relatively smaller 1bp, to again close at its lowest level for the year at 2.22%. Yesterday's strong Q1 retail sales were not enough to halt the aggressive push lower in yields we have seen since last week's RBNZ adherence to keeping the OCR on hold for a prolonged period. RBNZ's Assistant Governor McDermott's speech on forecasting and uncertainty late yesterday afternoon offered nothing extra for the policy outlook, but did note 'Today, in May 2017, the most likely scenario is for the OCR to remain stable for some time, although uncertainty remains high.'

There doesn't look to be much on the calendar today to cause much movement. UK CPI and EU GDP look like providing the most interest overnight.

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Coming Up

	Period	Cons.	Prev.	NZT
AU RBA May Rate Meeting Minutes				13:30
UK CPIH YoY	Apr	2.6	2.3	20:30
UK CPI Core YoY	Apr	2.3	1.8	20:30
EC Trade Balance SA	Mar	18.7	19.2	21:00
GE ZEW Survey Expectations	May	22	19.5	21:00
EC GDP SA QoQ	1Q P	0.5	0.5	21:00
NZ Dairy Auction Avg. Winning Price			3166	
US Housing Starts	Apr	1260	1215	00:30
US Building Permits	Apr	1270	1260	00:30
US Industrial Production MoM	Apr	0.4	0.5	01:15

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	0.6879	+0.2	0.6872	0.6918	CHF	0.9963	-0.5		S&P 500	2,400	+0.4	17.3	Oil (Brent)	51.81	+1.9
AUD	0.7419	+0.4	0.7396	0.7446	SEK	8.827	-0.0		Dow	20,976	+0.4	19.6	Oil (WTI)	48.85	+2.1
EUR	1.0978	+0.4	1.0926	1.0990	NOK	8.546	-0.2		Nasdaq	6,145	+0.4	30.3	Gold	1231.1	+0.3
GBP	1.2896	+0.0	1.2882	1.2941	HKD	7.789	-0.1		Stoxx 50	3,642	+0.1	23.2	HRC steel	610.0	+0.0
JPY	113.75	+0.3	113.26	113.85	CNY	6.894	-0.1		FTSE	7,454	+0.3	21.4	CRB	182.7	+0.6
CAD	1.3643	-0.5			SGD	1.398	-0.4		DAX	12,807	+0.3	28.7	Wheat Chic.	438.0	-2.0
NZD/AUD	0.9272	-0.2			IDR	13,303	-0.2		CAC 40	5,417	+0.6	25.4	Sugar	15.61	+0.6
NZD/EUR	0.6266	-0.2			THB	34.54	-0.4		Nikkei	19,870	-0.1	20.7	Cotton	85.32	+4.1
NZD/GBP	0.5334	+0.2			KRW	1,124	-0.3		Shanghai	3,090	+0.2	8.4	Coffee	133.5	-1.2
NZD/JPY	78.25	+0.5			TWD	30.10	-0.2		ASX 200	5,838	+0.0	8.9	WM powder	3180.0	+0.3
NZ TWI	75.02	-0.0			PHP	49.68	-0.2		NZX 50	7,430	-0.3	7.5	Australian Futures		
													3 year bond	98.16	-0.02
													10 year bond	97.37	-0.02
Interest Rates					NZ Government Bonds				NZ Swap Yields						
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last						
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	1.00	1.18	1.53	2.25	USD	2.34	0.01	NZGB 3 04/15/20	2.15	-0.03	1 year	2.03	-0.01		
AUD	1.50	1.74	1.82	2.83	AUD	2.59	-0.05	NZGB 6 05/15/21	2.31	-0.03	2 year	2.22	-0.01		
NZD	1.75	1.98	2.22	3.29	NZD	2.93	-0.04	NZGB 5 1/2 04/15/23	2.60	-0.03	5 year	2.77	-0.04		
EUR	0.00	0.06	-0.14	0.82	GER	0.42	0.03	NZGB 2 3/4 04/15/25	2.83	-0.04	7 year	3.03	-0.04		
GBP	0.25	0.31	0.55	1.21	GBP	1.14	0.05	NZGB 4 1/2 04/15/27	2.93	-0.04	10 year	3.29	-0.05		
JPY	-0.04	-0.01	0.04	0.24	JPY	0.04	-0.00	NZGB 3 1/2 04/14/33	3.22	-0.04	15 year	3.56	-0.05		
CAD	0.50	1.17	1.01	1.82	CAD	1.59	0.02								

* 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 07:32

Source: Bloomberg

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