

17 August 2017

Events Round-Up

AU: Wage price index (q/q%), Q2: 0.5 vs. 0.5 exp.
 UK: ILO unemployment rate (%), Jun: 4.4 vs. 4.5 exp.
 UK: Avg weekly earnings (y/y%), Jun: 2.1 vs. 1.8 exp.
 EC: GDP (q/q%), Q2: 0.6 vs. 0.6 exp.
 US: Housing starts ('000), Jul: 1155 vs. 1220 exp.
 US: Building permits ('000), Jul: 1223 vs. 1250 exp.

Good Morning

The recent recovery in the USD abruptly ended, with Trump back in the headlines and the market interpreting the FOMC minutes to the dovish side. These factors have also helped drive UST yields lower.

After a number of CEO's quit two key advisory groups of American business leaders, Trump said that he would disband the business councils. This follows widespread condemnation of Trump's response to protests by white supremacist groups over the weekend. It's another nail in the coffin for Trump's policy agenda.

The news sent the USD and US rates lower, with reaction to the FOMC minutes this morning adding to the move. The minutes noted that "several" Fed officials said inflation risks could be to the downside and "many" officials saw sub 2% inflation for longer than expected. These comments were balanced out by "most" participants indicating that they expected inflation to pick up over the next couple of years and "many" participants noting that much of the recent decline in inflation had probably reflected idiosyncratic factors. Elsewhere in the minutes there was plenty of discussion on the low inflation environment, with some thinking that technology and global disinflation have been disruptive factors.

The various USD indices are about 0.4% lower. Commodity currencies have been the best performers, with the AUD up 1.2% to 0.7920, the NZD up 1% to return to the 0.73 mark and the CAD up 0.7%. NZD/AUD fell to as low as 0.9202 before recovering to 0.9225, around the level of the NZ close. Metal prices continued their strong run on tightening supplies and strong global demand, with zinc prices up to a decade-high, aluminium approaching a 3-year high and gains for copper and lead. Oil prices fell around 1½%, with traders focused on the EIA report of strong crude production and ignoring the drop in stockpiles.

EUR was hit last night as reports came through that ECB President Draghi would steer clear of any major policy announcement when he speaks at next week's Jackson Hole symposium. EUR reached a low of around 1.1680, but the USD reversal has seen it recover to 1.7770, while the NZD's outperformance sees NZD/EUR back up to just over the 0.62 mark.

GBP got a boost after data showed the UK unemployment rate unexpectedly falling to 4.4%, its lowest rate in over 40 years. Wage growth was stronger than expected but real wage inflation was still negative. However, GBP met resistance at 1.29 and has been one of the worst performers alongside the USD. This sees NZD/GBP to 0.8% to 0.5670.

USD/JPY was tightly range bound until the US news drove USD/JPY down 0.5% to 110.15. The 80 handle has returned for NZD/JPY, with the cross rising to 80.4.

UST yields are lower across the curve, with the 2-year rate down 2bps to 1.33% and the 10-year rate down 5bps to a session low of 2.22%. The FOMC minutes showed that several participants were ready to announce a starting date for shrinking the balance sheet at that late-July meeting. This adds to the chance that the Fed will make the announcement at its September meeting.

There was little change in the local rate curves yesterday, while the UST move this morning will put downward pressure on rates at the open. Australian employment data will be the focus during the local session today, while the global calendar ahead only has second-tier releases.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ PPI output (q/q%)	2Q		1.4	10:45
NZ ANZ consumer confidence	Aug		125.4	13:00
AU Employment change ('000)	Jul	20	14	13:30
AU Unemployment rate (%)	Jul	5.6	5.6	13:30
NZ NZ plans to sell \$200m 2025 bonds				14:05
UK Retail sales ex auto fuel (m/m%)	Jul	0.1	0.9	20:30
EC CPI (m/m%)	Jul	-0.5	0	21:00
US Philadelphia Fed bus. outlook	Aug	18	19.5	00:30
US Industrial production (m/m%)	Jul	0.3	0.4	01:15
US Fed's Kaplan speaks in Texas				05:00

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	0.7306	+1.0	0.7232	0.7309	CHF	0.9663	-0.6	S&P 500	2,467	+0.1	13.2	Oil (Brent)	50.34	-0.9
AUD	0.7918	+1.2	0.7833	0.7925	SEK	8.076	+0.0	Dow	22,034	+0.2	18.8	Oil (WTI)	46.81	-1.6
EUR	1.1770	+0.3	1.1682	1.1779	NOK	7.923	-0.5	Nasdaq	6,345	+0.2	21.4	Gold	1281.7	+0.6
GBP	1.2886	+0.1	1.2842	1.2903	HKD	7.822	-0.0	Stoxx 50	3,485	+0.7	15.5	HRC steel	621.0	+0.0
JPY	110.15	-0.5	110.03	110.95	CNY	6.692	+0.1	FTSE	7,433	+0.7	7.8	CRB	175.4	-0.5
CAD	1.2666	-0.7			SGD	1.363	-0.3	DAX	12,264	+0.7	14.9	Wheat Chic.	447.0	-2.0
NZD/AUD	0.9227	-0.3			IDR	13,377	+0.1	CAC 40	5,177	+0.5	16.1	Sugar	12.94	-1.4
NZD/EUR	0.6207	+0.7			THB	33.27	-0.1	Nikkei	19,729	-0.1	17.8	Cotton	67.55	-0.2
NZD/GBP	0.5670	+0.8			KRW	1,142	+0.6	Shanghai	3,246	-0.1	4.4	Coffee	134.5	-0.8
NZD/JPY	80.48	+0.5			TWD	30.36	+0.2	ASX 200	5,785	+0.5	4.5	WM powder	3260.0	-1.4
NZ TWI	77.18	+0.6			PHP	51.38	-0.0	NZX 50	7,853	+0.5	6.8	Australian Futures		
												3 year bond	98.03	0.01
												10 year bond	97.36	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	Last		
USD	1.25	1.31	1.59	2.18	USD	2.22	-0.05	NZGB 3 04/15/20	2.04	-0.00	1 year	2.02	-0.00	
AUD	1.50	1.69	1.92	2.81	AUD	2.66	0.02	NZGB 6 05/15/21	2.19	-0.00	2 year	2.19	0.00	
NZD	1.75	1.97	2.19	3.18	NZD	2.89	-0.02	NZGB 5 1/2 04/15/23	2.48	0.00	5 year	2.66	0.01	
EUR	0.00	0.06	-0.17	0.84	GER	0.45	0.01	NZGB 2 3/4 04/15/25	2.74	-0.00	7 year	2.92	0.01	
GBP	0.25	0.28	0.56	1.17	GBP	1.11	0.02	NZGB 4 1/2 04/15/27	2.89	-0.01	10 year	3.18	0.01	
JPY	-0.03	-0.03	0.02	0.23	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.27	-0.02	15 year	3.44	0.01	
CAD	0.75	1.17	1.57	2.16	CAD	1.87	-0.03	NZGB 2 3/4 04/15/37	3.51	-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 07:00

Source: Bloomberg

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