

17 July 2017

Events Round-Up

NZ: Manufacturing PMI, Jun: 56.2 vs. 58.2 prev.
 US: CPI (m/m%), Jun: 0.0 vs. 0.1 exp.
 US: CPI ex food and energy (m/m%), Jun: 0.1 vs. 0.2 exp.
 US: CPI (y/y%), Jun: 1.6 vs. 1.7 exp.
 US: CPI ex food and energy (y/y%), Jun: 1.7 vs. 1.7 exp.
 US: Retail sales advance (m/m%), Jun: -0.2 vs. 0.1 exp.
 US: Ret. sales ex auto, gas (m/m%), Jun: -0.1 vs. 0.4 exp.
 US: Industrial production (m/m%), Jun: 0.4 vs. 0.3 exp.
 US: U. of Mich. Sentiment, Jul P: 93.1 vs. 95.0 exp.

Good Morning

The focus for the market on Friday was the much-anticipated US CPI release. Core CPI inflation surprised to the downside for the fourth consecutive month, with the annual increase of 1.7% remaining at a 2-year low. There was a trifecta of soft economic releases, with retail sales and consumer sentiment also underwhelming, the latter falling to a 9-month low.

The USD was under pressure for much of last week, and the weak CPI outturn resulted in another lurch down. The USD majors index ended the day down 0.7%, and down 1.2% for the week, taking it to its lowest level in ten months. The weaker USD helped drive the S&P500 up 0.5%, taking it to a fresh record high, while the VIX index fell to 9.5, its lowest close since 1993.

While the data had a sustained impact on the USD and equity market, the impact on the bond market was only temporary. The US 10-year Treasury rate was 2.33% ahead of the CPI release and it fell 5bps to 2.28%, before recovering to close the day back at 2.33% just 1bp lower compared to the NZ close. The 2-year rate followed a similar pattern.

Expectations for further Fed hikes this year barely changed, with the market pricing in slightly less than a 50/50 chance of another 25bps hike before the end of the year. The broadly-based nature of the recent weakness in the core CPI raises some doubt about how "temporary" the slowdown is but there are still five more monthly releases before the December meeting along with another five potentially strong employment releases. Abandoning calls for further Fed tightening this year would therefore appear premature. Most believe that a Q3 pause in the hiking cycle is likely anyway, as some reduction in the Fed's balance sheet takes priority.

All major currencies rose against the USD, with the NZD showing the smallest gain, up only 0.4% for the session to close just under 0.7350, a key level of technical resistance. Rising risk appetite has pushed our fair value estimate up to 0.7590, but we still have some doubt over whether the NZD will reach such a height this year. The NZD remains vulnerable to any negative news, with net speculative long positioning remaining near a four-year high. The last time speculative positioning was this one-sided, in April 2013, the NZD fell from 0.86 to 0.77 or around 10% over the subsequent three months.

At the other end of the leaderboard, the AUD was the biggest beneficiary of the soft USD, continuing its strong run, up 1.3% to fresh high of 0.7830 and up over 3% for the week. It's not often you see such a wide dispersion between NZD and AUD performance, on no specific NZ or Australia news, so that's a bit of a head-scratcher. NZD/AUD fell 0.9%, closing at a 7-week low of 0.9380.

GBP also put in a particularly strong performance, breaking up through 1.31 at one stage, a level it hasn't seen since September. There is growing speculation that the Bank of England will be the next major central bank to hike rates, although more likely early next year than something for 2017. NZD/GBP closed the week just above 0.56. Being one of the weakest performers, the NZD was lower on the other major crosses, closing the week just above EUR 0.64 and NZD/JPY closing around 82.7.

NZ's swap curve steepened slightly on Friday, with global forces pushing up longer dated yields, with the 10-year rate up 2.5bps to 3.36% and the 2-year rate flat at 2.27% ahead of tomorrow's NZ CPI release. Market expectations are centred on a soft 0.2% q/q outturn and BNZ's estimate is slightly below that at 0.1% q/q, a recipe for the RBNZ maintaining its neutral policy stance for some time to come. Today sees the release of China activity data, where expectations are for little change in momentum, while the calendar for tonight is bare.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Performance Services Index	Jun		58.8	10:30
CH Retail Sales YoY	Jun	10.6	10.7	14:00
CH Fixed Assets Ex Rural YTD YoY	Jun	8.5	8.6	14:00
CH Industrial Production YoY	Jun	6.5	6.5	14:00
CH GDP YoY	2Q	6.8	6.9	14:00

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	0.7347	+0.4	0.7300	0.7366	CHF	0.9635	-0.4	S&P 500	2,459	+0.5	13.8	Oil (Brent)	48.91	+1.0
AUD	0.7832	+1.3	0.7740	0.7829	SEK	8.308	-0.6	Dow	21,638	+0.4	16.9	Oil (WTI)	46.54	+1.0
EUR	1.1470	+0.6	1.1401	1.1469	NOK	8.187	-0.9	Nasdaq	6,312	+0.6	25.5	Gold	1227.5	+0.8
GBP	1.3098	+1.2	1.2949	1.3093	HKD	7.804	-0.1	Stoxx 50	3,526	-0.1	19.2	HRC steel	620.0	+0.0
JPY	112.53	-0.7	112.27	113.47	CNY	6.775	-0.1	FTSE	7,378	-0.5	10.6	CRB	176.3	+1.1
CAD	1.2644	-0.6			SGD	1.372	-0.2	DAX	12,632	-0.1	25.5	Wheat Chic.	534.8	-0.0
NZD/AUD	0.9381	-0.9			IDR	13,339	-0.1	CAC 40	5,235	+0.3	19.7	Sugar	14.30	+1.1
NZD/EUR	0.6405	-0.2			THB	33.75	-0.5	Nikkei	20,119	+0.1	21.9	Cotton	67.18	+1.0
NZD/GBP	0.5609	-0.9			KRW	1,133	-0.3	Shanghai	3,222	+0.1	5.5	Coffee	133.7	+1.9
NZD/JPY	82.68	-0.3			TWD	30.41	+0.2	ASX 200	5,765	+0.5	6.2	WM powder	3140.0	+0.2
NZ TWI	78.15	-0.1			PHP	50.59	+0.1	NZX 50	7,650	+0.5	8.2	Australian Futures		
												3 year bond	98.01	0.00
												10 year bond	97.28	0.00
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	1.30	1.59	2.28	USD	2.33	-0.01	NZGB 3 04/15/20	2.21	0.01	1 year	2.06	0.01	
AUD	1.50	1.70	1.93	2.90	AUD	2.72	0.03	NZGB 6 05/15/21	2.35	0.02	2 year	2.27	0.00	
NZD	1.75	1.97	2.27	3.36	NZD	2.97	0.02	NZGB 5 1/2 04/15/23	2.64	0.02	5 year	2.85	0.01	
EUR	0.00	0.06	-0.12	0.96	GER	0.60	-0.01	NZGB 2 3/4 04/15/25	2.85	0.02	7 year	3.11	0.02	
GBP	0.25	0.29	0.66	1.35	GBP	1.31	0.01	NZGB 4 1/2 04/15/27	2.97	0.02	10 year	3.36	0.03	
JPY	-0.05	-0.01	0.05	0.27	JPY	0.08	-0.00	NZGB 3 1/2 04/14/33	3.30	0.02	15 year	3.61	0.03	
CAD	0.75	1.17	1.51	2.20	CAD	1.90	-0.01	NZGB 2 3/4 04/15/37	3.53	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 Sat. morning NY close

Source: Bloomberg

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