

17 May 2017

## Events Round-Up

AU: RBA May Rate Meeting Minutes

UK: CPIH YoY, Apr: 2.6 vs 2.6 exp.

UK: CPI Core YoY, Apr: 2.4 vs 2.3 exp.

EC: Trade Balance EUR b, SA, Mar: 23.1 vs 18.7 exp.

GE: ZEW Survey Expectations, May: 35.1 vs 26 prev.

EC: GDP SA QoQ, Q1, 0.5 vs 0.5 exp.

NZ: Dairy Auction Avg. Winning Price: 3313 vs 3166 prev.

US: Housing Starts, Apr: 1172 vs 1260 exp.

US: Building Permits, Apr: 1229 vs 1270 exp.

US: Industrial Production MoM, Apr: 1.0 vs 0.4 exp.

## Good Morning

Equity markets are little changed, while oil prices are marginally lower following yesterday's jump higher. US long bond yields are down a couple of points. More movement was seen in foreign exchange markets.

USD weakness has extended. The USD has decisively broken below its 200-day moving average having been oscillating around it for the best part of the past month. The dollar was weaker across all the majors overnight, with the DXY dollar index down 0.8% to its lowest level since last November's US election. USD/JPY is down 0.7%, close to 113.00.

Last week's soft US CPI kicked off the recent bout of USD weakness and has extended amid allegations that Trump disclosed highly classified information about a planned Islamic State operation to Russia's foreign minister in a recent meeting. Trump says that the meeting was successful. US data overnight wasn't strong enough to stop the USD's slide.

Stronger-than-expected US industrial production figures does support the Fed's view that Q1 economic weakness is likely to be temporary, but doubts about whether the Fed will actually tighten in June linger (currently priced at around a 70% chance). US housing permits and starts data were softer than market expectations.

All this was in contrast to more positive developments in Europe, seeing the EUR/USD on a one-way street higher overnight. Political risk has faded post the French election and economic data continues to print strong. The EUR/USD was already in the ascendancy overnight before being bolstered by a bigger-than-expected trade surplus

and a higher ZEW investor sentiment survey. EU Q1 GDP growth was as good as expected at 0.5% q/q and 1.7% y/y. It all adds fodder to those thinking that the ECB may begin altering its policy guidance language in June. German-US long term interest rate spreads narrowed, also offering support to the EUR. EUR/USD blasted up through 1.1000 and is currently near session highs around 1.1090, up 1.0% on the day.

There was some volatility in GBP around the slightly higher than expected UK CPI data overnight. Initially pushing higher toward 1.2960, GBP/USD then plunged to below 1.2870 as realisation of declining real incomes set in, but then the pair recovered (supported by a stronger EUR) to currently sit around 1.2920.

The still unloved NZD has been on the side lines overnight trading a relatively tight circa 40 pip range. Despite a decent dairy auction, with prices up 3.2%, and general USD weakness, the NZD could find no upward momentum. NZD/USD opens this morning at a familiar 0.6890. EUR strength sees NZD/EUR down 1.0%, at around 0.6210.

There was no new news in yesterday's RBA minutes, with no lasting impact on the AUD. The RBA is still watching the labour and housing markets carefully, which will keep market focus on today's AU wage data and tomorrow's employment figures. AUD/USD opens this morning around 0.7430 and NZD/AUD about 0.9270.

The US 10-year Treasury yield nearly hit 2.36% during the night, then slumped back to under 2.31% before settling around 2.325%, down around 2bps on the day. This is in contrast to a mild push higher (+1.5 bp) in German 10-year Bund yields. The US-German 10-year bond spread is at its lowest since November last year, at 189bps.

The local swap curve steepened a touch yesterday as longer end yields pushed higher following moves in the previous offshore session. NZ 5-year swap rose 1.5bps to just over 2.78%.

Meanwhile, short end rates remain heavily influenced by latest RBNZ guidance that the OCR is on hold for a prolonged period. The NZ 2-year swap yield did manage to lift a basis point yesterday in what was its first higher daily close since last Thursday's Monetary Policy Statement. However, at 2.23%, NZ 2-year swap yield is some 11 basis points lower than prevailed this time last week. The pre-MPS trading range for 2-year swap was around 2.25-2.35%. The new range over coming months now looks

likely to be around 10bps lower at 2.15%-2.25%.

Today, we expect NZ's producer and capital goods price indexes for Q1 to reveal a broader element to the recent inflation pick up. But with the CPI already released for the quarter, and the RBNZ unmoved, expect little market reaction. Likewise for Australia's wage price index if it comes in at 0.5% for the quarter where the majority of forecasts are huddled. Overnight, the EU's April CPI will be closely watched for any signs of a pickup in core inflation given recent economic strength.

Coming Up

	Period	Cons.	Prev.	NZT
NZ PPI Output QoQ	1Q		1.5	10:45
NZ PPI Input QoQ	1Q		1.0	10:45
AU Westpac Consumer Conf Index	May		99	12:30
AU Wage Price Index YoY	1Q	1.9	1.9	13:30
JN Industrial Production YoY	Mar F		3.3	16:30
UK ILO Unemployment Rate 3Mths	Mar	4.7	4.7	20:30
EC CPI YoY	Apr F	1.9	1.5	21:00
EC CPI Core YoY	Apr F	1.2	1.2	21:00

Source: Bloomberg, BNZ

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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	0.6887	+0.1	0.6863	0.6902	CHF	0.9852	-1.1		S&P 500	2,400	-0.1	16.1	Oil (Brent)	51.64	-0.4																																																																																																																																																	
AUD	0.7432	+0.3	0.7395	0.7438	SEK	8.776	-0.6		Dow	20,985	+0.0	18.5	Oil (WTI)	48.63	-0.5																																																																																																																																																	
EUR	1.1090	+1.0	1.0991	1.1097	NOK	8.463	-1.1		Nasdaq	6,167	+0.3	29.1	Gold	1237.4	+0.6																																																																																																																																																	
GBP	1.2919	+0.2	1.2866	1.2958	HKD	7.787	-0.0		Stoxx 50	3,642	+0.0	23.4	HRC steel	615.0	+0.8																																																																																																																																																	
JPY	113.05	-0.7	112.95	113.73	CNY	6.887	-0.1		FTSE	7,522	+0.9	22.3	CRB	182.1	-0.3																																																																																																																																																	
CAD	1.3586	-0.3			SGD	1.395	-0.3		DAX	12,805	-0.0	28.7	Wheat Chic.	438.3	+0.1																																																																																																																																																	
NZD/AUD	0.9267	-0.2			IDR	13,300	-0.0		CAC 40	5,406	+0.4	25.4	Sugar	15.88	+1.7																																																																																																																																																	
NZD/EUR	0.6210	-1.0			THB	34.47	-0.2		Nikkei	19,920	+0.3	19.6	Cotton	81.32	-4.6																																																																																																																																																	
NZD/GBP	0.5331	-0.1			KRW	1,116	-0.7		Shanghai	3,113	+0.7	9.5	Coffee	131.5	-1.5																																																																																																																																																	
NZD/JPY	77.86	-0.6			TWD	30.10	-0.0		ASX 200	5,851	+0.2	8.4	WM powder	3030.0	-0.7																																																																																																																																																	
NZ TWI	74.90	-0.2			PHP	49.72	+0.1		NZX 50	7,408	-0.3	6.2	<b>Australian Futures</b>																																																																																																																																																			
<table border="1"> <thead> <tr> <th colspan="6">Interest Rates</th> <th colspan="4">NZ Government Bonds</th> <th colspan="3">NZ Swap Yields</th> </tr> <tr> <th colspan="2">Rates</th> <th colspan="2">Swap Yields</th> <th colspan="2">Benchmark 10 Yr Bonds</th> <th colspan="4"></th> <th colspan="3"></th> </tr> <tr> <th></th> <th>Cash</th> <th>3Mth</th> <th>2 Yr</th> <th>10 Yr</th> <th></th> <th>Last</th> <th>Net Day</th> <th></th> <th>Last</th> <th></th> <th></th> <th>Last</th> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>USD</td> <td>1.00</td> <td>1.18</td> <td>1.53</td> <td>2.25</td> <td>USD</td> <td>2.33</td> <td>-0.02</td> <td>NZGB 3 04/15/20</td> <td>2.15</td> <td>0.00</td> <td>1 year</td> <td>2.03</td> <td>+0.00</td> <td></td> </tr> <tr> <td>AUD</td> <td>1.50</td> <td>1.74</td> <td>1.82</td> <td>2.81</td> <td>AUD</td> <td>2.58</td> <td>-0.01</td> <td>NZGB 6 05/15/21</td> <td>2.31</td> <td>0.00</td> <td>2 year</td> <td>2.23</td> <td>+0.01</td> <td></td> </tr> <tr> <td>NZD</td> <td>1.75</td> <td>1.99</td> <td>2.23</td> <td>3.31</td> <td>NZD</td> <td>2.93</td> <td>0.00</td> <td>NZGB 5 1/2 04/15/23</td> <td>2.60</td> <td>0.00</td> <td>5 year</td> <td>2.79</td> <td>+0.02</td> <td></td> </tr> <tr> <td>EUR</td> <td>0.00</td> <td>0.06</td> <td>-0.14</td> <td>0.83</td> <td>GER</td> <td>0.44</td> <td>0.02</td> <td>NZGB 2 3/4 04/15/25</td> <td>2.83</td> <td>0.00</td> <td>7 year</td> <td>3.05</td> <td>+0.02</td> <td></td> </tr> <tr> <td>GBP</td> <td>0.25</td> <td>0.32</td> <td>0.55</td> <td>1.20</td> <td>GBP</td> <td>1.13</td> <td>-0.01</td> <td>NZGB 4 1/2 04/15/27</td> <td>2.93</td> <td>0.00</td> <td>10 year</td> <td>3.31</td> <td>+0.02</td> <td></td> </tr> <tr> <td>JPY</td> <td>-0.04</td> <td>-0.01</td> <td>0.04</td> <td>0.25</td> <td>JPY</td> <td>0.05</td> <td>0.00</td> <td>NZGB 3 1/2 04/14/33</td> <td>3.22</td> <td>0.00</td> <td>15 year</td> <td>3.58</td> <td>+0.02</td> <td></td> </tr> <tr> <td>CAD</td> <td>0.50</td> <td>1.17</td> <td>1.02</td> <td>1.81</td> <td>CAD</td> <td>1.57</td> <td>-0.02</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>															Interest Rates						NZ Government Bonds				NZ Swap Yields			Rates		Swap Yields		Benchmark 10 Yr Bonds										Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last			Last			USD	1.00	1.18	1.53	2.25	USD	2.33	-0.02	NZGB 3 04/15/20	2.15	0.00	1 year	2.03	+0.00		AUD	1.50	1.74	1.82	2.81	AUD	2.58	-0.01	NZGB 6 05/15/21	2.31	0.00	2 year	2.23	+0.01		NZD	1.75	1.99	2.23	3.31	NZD	2.93	0.00	NZGB 5 1/2 04/15/23	2.60	0.00	5 year	2.79	+0.02		EUR	0.00	0.06	-0.14	0.83	GER	0.44	0.02	NZGB 2 3/4 04/15/25	2.83	0.00	7 year	3.05	+0.02		GBP	0.25	0.32	0.55	1.20	GBP	1.13	-0.01	NZGB 4 1/2 04/15/27	2.93	0.00	10 year	3.31	+0.02		JPY	-0.04	-0.01	0.04	0.25	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.22	0.00	15 year	3.58	+0.02		CAD	0.50	1.17	1.02	1.81	CAD	1.57	-0.02							
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\* 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 07:43

Source: Bloomberg

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