

18 July 2017

Events Round-Up

NZ: Performance of services index, Jun: 58.6 vs. 58.8 exp.

CH: Retail sales, (y/y%), Jun: 11.0 vs. 10.6 exp.

CH: Fixed assets investment (y/y%), Jun: 8.6 vs. 8.5 exp.

CH: Industrial production (y/y%), Jun: 7.6 vs. 6.5 exp.

CH: GDP (YoY), Q2: 6.9 vs. 6.8 exp.

US: Empire manufacturing, Jul: 9.8 vs. 15.0 exp.

Good Morning

It has been a quiet start to the week, with low volumes and no significant market movements, although commodity currencies are on the soft side. Locally, attention will turn to today's CPI data, while globally the key release is Thursday night's ECB meeting.

The economic calendar has been light. China's data dump yesterday was positive, with the key monthly indicators all beating market expectations and GDP growth steady at 6.9%, a touch above expectations. There was little market reaction to this. Normally, one might have expected the China-sensitive AUD to spike higher on this, but it had such a good run last week (+3%) that any buying pressure was exhausted. The AUD has actually lost ground after ending last week on a strong note, down 0.4% and dipping below 0.7800 during the drafting of this note. Overnight, the second-tier US empire manufacturing index was weaker than expected, continuing the run of soft US data, but market reaction was muted.

The commodity currencies have underperformed, with the NZD, AUD and CAD all down about 0.4% from the weekend close. During a quiet Asian session, the NZD fell 25pips after the release of RBNZ Deputy Governor Bascand's speech on NZ's external accounts, as the newswires reported a phrasing buried on page 14 that suggested a "lower NZ dollar would help rebalance growth". The fact that such language was deliberately omitted from the press release suggested that the Bank wasn't trying to draw attention to the NZD. Indeed, a careful reading of the speech in fact gave a positive NZD story, with a chart showing the NZD not keeping up with NZ's record terms of trade and Bascand suggesting that the improvement in NZ's net foreign liabilities to GDP ratio "suggests that the exchange rate may be more sustainable". We agree and our working assumption has long been that the equilibrium value of the NZD has been rising over the past decade.

The NZ sits this morning at 0.7320, only a touch weaker relative to the NZ close and down about 0.4% relative to the weekend close. It lost some ground, alongside other commodity currencies, after recovering to as high as 0.7350 earlier this morning.

Of the other majors, GBP has lost a little ground, about 0.3% against the USD, after its inexplicable strength on Friday, while EUR and JPY are flat. The next focus for the majors will be the ECB meeting on Thursday night. A Bloomberg survey shows that respondents are split on whether officials might drop a pledge to boost quantitative easing if needed. We think the Bank will remove that pledge, taking another small step along its path of policy normalisation. Reuters has previously cited unidentified officials as saying the bank is keen to keep asset purchases open-ended. The debate suggests that there is some potential for EUR action later in the week. NZD/EUR is trading close to its session low around 0.6375.

Global yields are down slightly on little news, with Germany's 10-year rate down 1bp to 0.58% and the US 10-year rate down 2.5bps to 2.305%, having traded in a tight 2.30-2.33% range. There has been a hint of yield curve flattening, with the 2-year rate unchanged at 1.355%.

The local rates market was fairly dead yesterday, and swap rates were marked down 1-2bps across the curve, ahead of today's much-anticipated Q2 CPI release. We expect a soft result of 0.1% q/q and 1.8% y/y (below the RBNZ's pick back in May of 2.1% y/y, which didn't have the benefit of knowing the recent tumble in oil prices). A soft result would support our view that the RBNZ isn't likely to do an about-turn like the Bank of Canada recently did. We see the data reinforcing the RBNZ's decisively neutral policy stance for some time. If anything, inflation is tracking below the Bank's projections, given the combination of a stronger NZD and lower oil prices since the May MPS.

Tonight sees the release of UK CPI data and another GDT dairy auction.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ CPI (q/q%)	Q2	0.2	1.0	10:45
NZ CPI (y/y%)	Q2	1.9	2.2	10:45
AU RBA July rate meeting minutes				13:30
NZ Non-resident bond holdings	Jun		61.4	15:00
UK CPIH (y/y%)	Jun	2.7	2.7	20:30
UK CPI core (y/y%)	Jun	2.6	2.6	20:30
GE ZEW survey of expectations	Jul	18.0	18.6	21:00
EC CPI core (y/y%)	Jun F	1.1	1.1	21:00
NZ GDT dairy auction avg. winning price			3303	
US NAHB housing market index	Jul	67	67	02:00

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	0.7321	-0.4	0.7315	0.7350	CHF	0.9620	-0.2		S&P 500	2,460	+0.0	13.8	Oil (Brent)	48.40	-1.0
AUD	0.7801	-0.4	0.7795	0.7838	SEK	8.293	-0.2		Dow	21,638	+0.0	16.9	Oil (WTI)	46.01	-1.1
EUR	1.1480	+0.1	1.1435	1.1487	NOK	8.147	-0.5		Nasdaq	6,313	+0.0	25.5	Gold	1234.2	+0.5
GBP	1.3054	-0.3	1.3051	1.3097	HKD	7.803	-0.0		Stoxx 50	3,516	-0.3	18.8	HRC steel	620.0	+0.0
JPY	112.60	+0.1	112.33	112.87	CNY	6.770	-0.1		FTSE	7,404	+0.3	11.0	CRB	175.9	-0.2
CAD	1.2686	+0.3			SGD	1.370	-0.2		DAX	12,587	-0.4	25.0	Wheat Chic.	530.3	-0.9
NZD/AUD	0.9385	+0.0			IDR	13,326	-0.1		CAC 40	5,230	+0.3	19.6	Sugar	14.09	-1.5
NZD/EUR	0.6377	-0.4			THB	33.60	-0.4		Nikkei	20,119	+0.1	21.9	Cotton	68.57	+2.0
NZD/GBP	0.5608	+0.0			KRW	1,128	-0.4		Shanghai	3,176	-1.4	4.4	Coffee	133.6	-0.1
NZD/JPY	82.43	-0.3			TWD	30.39	-0.0		ASX 200	5,755	-0.2	5.4	WM powder	3150.0	+0.3
NZ TWI	78.07	-0.3			PHP	50.67	+0.2		NZX 50	7,700	+0.7	8.4	Australian Futures		
													3 year bond	98	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	2.25	USD	2.31	-0.03	NZGB 3 04/15/20	2.19	-0.02		1 year	2.05	-0.01	
AUD	1.50	1.70	1.93	2.90	AUD	2.73	0.01	NZGB 6 05/15/21	2.35	-0.01		2 year	2.25	-0.02	
NZD	1.75	1.96	2.25	3.35	NZD	2.97	0.00	NZGB 5 1/2 04/15/23	2.64	0.00		5 year	2.82	-0.02	
EUR	0.00	0.06	-0.13	0.94	GER	0.58	-0.02	NZGB 2 3/4 04/15/25	2.85	0.01		7 year	3.09	-0.02	
GBP	0.25	0.29	0.65	1.32	GBP	1.27	-0.04	NZGB 4 1/2 04/15/27	2.97	0.00		10 year	3.35	-0.01	
JPY	-0.05	-0.01	0.05	0.28	JPY	0.08	0.00	NZGB 3 1/2 04/14/33	3.31	0.01		15 year	3.59	-0.01	
CAD	0.75	1.17	1.51	2.19	CAD	1.88	-0.02	NZGB 2 3/4 04/15/37	3.53	0.00					

* 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 06:45

Source: Bloomberg

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