

18 May 2017

Events Round-Up

NZ: PPI outputs (q/q%), Q1: 1.4 vs. 1.5 prev.
AU: Westpac consumer confid., May: 98.0 vs. 99.0 prev.
AU: Wage price index (y/y%), Q1: 1.9 vs. 1.9 exp.
UK: Unemployment rate (%), Mar: 4.6 vs. 4.7 exp.
EC: Core CPI (y/y%), Apr F: 1.2 vs. 1.2 exp.

Good Morning

With no top tier data to focus on this week, it was inevitable that Trump would regain the spotlight. And so it is, with the “dodgy” revelations of Trump allegedly asking FBI Director Comey to drop a probe of his former national security advisor – an impeachable offence according to some. This follows the recent firing of Comey and reports of Trump passing on secret intelligence to Russia. All this adds further distraction to Trump’s pro-growth policy agenda, which has yet to, and may never, get off the ground.

During the Asian trading session yesterday we saw risk appetite fall, evident in weaker S&P futures, yen strength and a rally in USTs. That theme gained some momentum overnight. The S&P 500 is currently down 1.5%, with Europe’s Stoxx 600 index down 1.2% – big moves in the context of the very low volatility environment that has been evident for some time now. The VIX index is up 32% to just over 14.

The Trump curveball follows soft US CPI data at the end of last week. The combination of a potentially weaker inflation environment than previously thought and less chance that Trump’s fiscal stimulus will see the light of day, has softened the outlook for Fed tightening. Fed fund futures now suggest a 60% chance of a June tightening, down from 80% a week ago and some 28bps of tightening through the rest of the year, down from about 40bps last week. Thus, little more than one full rate hike is now priced into the curve by December. The US 2-year rate is down 6bps for the session to 1.24%, while the 10-year rate is down 11 bps to 2.215%, or over 8bps lower since the NZ close.

Lower US treasury yields have spilled over into other markets, with UK and Germany 10-year rates down in the order of 6bps. US-Germany 10 spreads which now trade around 185bps, down from as much as 220bps a couple of months ago. Less political risk in Europe, expectations of a less dovish ECB and a fading of Fed rate hike risks

have all been factors in this move.

Lower US yield spreads are driving the USD lower. The USD majors index is down some 0.6% for the day, taking the cumulative fall since last week’s soft CPI figure to 1.8%. On most USD indices, the big rally in the USD following Trump’s surprise election in November has now been fully unwound.

The risk-off mood sees the yen as the biggest beneficiary. USD/JPY is down nearly 2% and has just nudged below 111. Most major currencies are up against the USD, although CAD and AUD have lagged the move, even as oil and iron ore prices have shown gains for the day.

Yesterday, S&P became the final major rating agency to affirm Australia’s AAA rating after last week’s Budget, but it maintained a negative outlook. That had no market impact and we suspect currency performance for the day is as much about traders closing open positions on the risk-off move. Speculative accounts have been long AUD and short NZD and this could explain the relative performance on a day that encourages a closing up of positions. NZD has been a beneficiary of this dynamic, which sees it trade up 0.8% to 0.6940, regaining the level seen just prior to last week’s dovish RBNZ MPS. NZD/AUD has pushed up to around 0.9350, with the AUD steady around 0.7425.

EUR has reached its highest level since the day of the US Presidential election, blasting up to around 1.1150. The big move in EUR over the past month (5%+) – driven initially by the market-friendly French Presidential election result, followed by growing expectations of the ECB changing its policy guidance and now the Trump factor – has complicated the outlook for ECB policy. The governing committee will no doubt be factoring in EUR strength when it considers the inflation outlook and policy guidance next month.

GBP is up 0.3% to 1.2960 and continues to meet resistance just under the 1.30 mark. The unemployment rate fell to a 42-year low but the market is more focused on the wage picture, and real wages fell for the first time in 2½ years, a reflection of nominal wages not keeping up with the weak GBP-induced spike up in inflation.

In the local rates market yesterday we saw yields fall across the curve, driven by the long end as UST yields drifted lower. NZ’s 10-year government bond rate fell by 2.5bps to 2.90%, its lowest level in six months. The

overnight move will see more downward pressure today, good news for the taxpayer as the DMO looks to tender \$150m of 2025 bond today. The 2-year swap rate was little changed at 2.23%, while the 10-year swap rate fell by 2bps to 3.285%.

In the day ahead, Japan GDP and Australian employment data are released, but trading sentiment will be largely driven by US political developments.

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Coming Up

	Period	Cons.	Prev.	NZT
JN GDP (q/q%)	1Q P	0.5	0.3	11:50
NZ ANZ consumer confidence	May		121.7	13:00
AU Employment change ('000)	Apr	5.0	60.9	13:30
AU Unemployment rate (%)	Apr	5.9	5.9	13:30
NZ New Zealand Plans to Sell \$150m 2025 Bonds				14:05
UK Retail sales ex auto fuel (y/y%)	Apr	2.6	2.6	20:30
US Philly Fed business outlook	May	18.5	22.0	00:30

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Other FX				Major Indices			Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day		Last	Net Day	
NZD	0.6939	+0.8	0.6878	0.6945	CHF	0.9787	-0.7		S&P 500	2,364	-1.5	15.5	Oil (Brent)	52.12	+0.9
AUD	0.7424	-0.0	0.7389	0.7444	SEK	8.736	-0.6		Dow	20,634	-1.6	17.7	Oil (WTI)	48.98	+0.7
EUR	1.1153	+0.6	1.1082	1.1158	NOK	8.408	-0.6		Nasdaq	6,024	-2.4	27.7	Gold	1258.3	+1.8
GBP	1.2957	+0.3	1.2906	1.2991	HKD	7.786	-0.0		Stoxx 50	3,585	-1.6	22.0	HRC steel	615.0	+0.0
JPY	111.00	-1.9	110.89	112.57	CNY	6.878	-0.1		FTSE	7,503	-0.2	21.7	CRB	183.2	+0.6
CAD	1.3629	+0.2			SGD	1.391	-0.3		DAX	12,632	-1.4	27.7	Wheat Chic.	440.3	+0.9
NZD/AUD	0.9347	+0.8			IDR	13,324	+0.2		CAC 40	5,318	-0.6	23.7	Sugar	16.30	+2.6
NZD/EUR	0.6222	+0.2			THB	34.47	-0.0		Nikkei	19,815	-0.5	19.0	Cotton	80.17	-1.4
NZD/GBP	0.5355	+0.5			KRW	1,118	+0.2		Shanghai	3,104	-0.3	10.6	Coffee	134.4	+2.2
NZD/JPY	77.02	-1.1			TWD	30.15	+0.2		ASX 200	5,786	-1.1	8.0	WM powder	3200.0	+5.6
NZ TWI	75.35	+0.5			PHP	49.78	+0.1		NZX 50	7,423	+0.2	6.3	Australian Futures		
Interest Rates												3 year bond 98.25 0.03			
												10 year bond 97.51 0.11			
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	1.00	1.18	1.46	2.13	USD	2.21	-0.12	NZGB 3 04/15/20	2.13	-0.02	1 year	2.03	+0.00		
AUD	1.50	1.74	1.78	2.72	AUD	2.53	-0.05	NZGB 6 05/15/21	2.29	-0.02	2 year	2.23	+0.00		
NZD	1.75	1.98	2.23	3.29	NZD	2.90	-0.02	NZGB 5 1/2 04/15/23	2.58	-0.02	5 year	2.78	-0.01		
EUR	0.00	0.06	-0.15	0.77	GER	0.38	-0.06	NZGB 2 3/4 04/15/25	2.80	-0.03	7 year	3.04	-0.01		
GBP	0.25	0.31	0.53	1.12	GBP	1.07	-0.06	NZGB 4 1/2 04/15/27	2.90	-0.02	10 year	3.29	-0.02		
JPY	-0.05	-0.01	0.04	0.25	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.19	-0.02	15 year	3.56	-0.02		
CAD	0.50	1.17	0.98	1.70	CAD	1.44	-0.13								

* 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 06:51

Source: Bloomberg

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