

19 July 2017

Events Round-Up

NZ: CPI (q/q%), Q2: 0.0 vs. 0.2 exp.

NZ: CPI (y/y%), Q2: 1.7 vs. 1.9 exp.

UK: CPIH (y/y%), Jun: 2.6 vs. 2.7 exp.

UK: CPI core (y/y%), Jun: 2.4 vs. 2.6 exp.

GE: ZEW survey of expectations, Jul: 17.5 vs. 18.0 exp.

NZ: GDT dairy auction avg. winning price: +0.2%

US: NAHB housing market index, Jul: 64 vs. 67 exp.

Good Morning

There have been some significant swings in currency markets, with most of that occurring during the local trading session, with overnight trading more settled. Global rates are lower.

The USD came under pressure during the local trading session after two Republican senators said that they wouldn't support the proposed healthcare bill that would "repeal and replace" ObamaCare. A just-repeal possibility also looks like a no-goer as well, with the political shambles highlighting the gridlock in Washington. Investors are taking the view that getting anything done under the current Administration – including tax reform – will prove to be too difficult and are voting with their feet, sending the USD south. The USD fall has been broadly based, with the majors index down 0.6%, taking it to its lowest level in eight months. To the recent run of soft US data, we can add sentiment among American homebuilders deteriorating to an eight-month low in July, according to the NAHB survey.

Earlier in the session, NZ's Q2 CPI surprised to the downside, reinforcing the RBNZ's stance to keep monetary policy accommodative for a considerable period. It was a soft release overall, with core inflation measures showing little movement over the quarter. This sent the NZD down 60pips to about 0.7265, before the US political news sent it back higher and it was soon back to pre-CPI levels. Overnight it has traded in a fairly tight range with a slight upward drift, and it currently sits at 0.7355, a level it has struggled to move beyond over the past few weeks. The GDT dairy auction showed flat pricing overall and for the key whole-milk powder product.

The RBA minutes were meant to be a non-event, but the tone was slightly more upbeat than expected and they showed some discussion on the theoretical neutral policy

rate. It was said to be 3.5%, which the market interpreted as hawkish, being well above the current 1.5% cash rate. Our NAB colleagues note that while the discussion may reflect the RBA beginning to think about where rates ultimately end up as growth recovers to potential and spare capacity in the labour market reduces, there is little indication that the Bank is close to following its global counterparts in raising rates – as Board member Harper argued recently. Nevertheless, with the USD under pressure at the time, the AUD tacked on 1% within an hour of the release and has continued to drift higher. It stretched to 0.7943 last night, its highest level in over two-years, and currently sits at 0.7920. Along with the soft NZ CPI release, NZD/AUD is down 1% to 0.9290 and a long way from the 0.96 level the cross was at just two weeks ago.

UK CPI inflation in June was lower than the market expected and, alongside soft activity indicators, reduces the chance of any Bank of England tightening this year, despite the shift to a tightening bias by a majority of the MPC members. According to OIS pricing, the odds of a rate hike this year slipped below the 50% mark. After probing the 1.3120 level, GBP sits a lot lower at 1.3050, failing to make any headway against a soft USD for the day. The net result of the two soft CPI releases and the tailwind from a stronger AUD, sees NZD/GBP up 0.6% to 0.5640.

Despite NZ's soft CPI, the NZD hasn't lost much ground against EUR or JPY. NZD/EUR is down just 0.2% for the day to 0.6365, with the NZD riding on the coattails of a stronger AUD. Similarly, NZD/JPY is flat at 82.4, with the post-CPI losses fully recovered.

The weak NZ CPI helped drive NZ rates lower, although there was more action at the shorter end of the curve. The 2-yr swap rate fell from 2.25% to as low as 2.205% before closing at 2.23% down only 2bps for the day. The 10-year swap rate ended the day down just 1bp at 3.34%. OIS pricing shows the first hike pushed out to August 2018. The partial intra-day reversal of the decline in rates reflected the upward pressure on Australian rates following the RBA minutes. The Australian 2-year swap rate ended the day up 4bps to 1.965% as traders brought forward expectations for RBA hikes. The first RBA rate hike is now fully priced by October 2018 and the possibility of any near-term easing is now priced out of the curve.

On global rates, the death of the US healthcare bill and

reduced expectations of any fiscal stimulus drove US rates lower. There has been a clear flattening bias, with the 10-year Treasury rate down 5bps to 2.26% and the 2-year rate down by less than 1bp to 1.35%. Soft UK inflation data saw the UK 10-year rate down 6.5bps to 1.20%. These forces have helped drive Germany's 10-year rate down 3bps to 0.55%.

After an action-packed day, the day ahead looks a lot quieter. There will be increased interest in the RBA's Heath's speech later today and, coming from the Economics Department, she might shed more light on the RBA's thinking around the neutral policy rate. US housing

market data tonight shouldn't be market moving and there'll be more interest in any US political developments.

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Coming Up

	Period	Cons.	Prev.	NZT
AU RBA's Heath speech in Sydney				17:30
US Housing starts ('000)	Jun	1160	1092	00:30
US Building permits ('000)	Jun	1200	1168	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				
NZD	0.7356	+0.5	0.7336	0.7373	CHF	0.9549	-0.8	S&P 500	2,459	-0.0	13.5	Oil (Brent)	48.91	+1.0	
AUD	0.7922	+1.6	0.7891	0.7943	SEK	8.294	+0.1	Dow	21,566	-0.3	16.4	Oil (WTI)	46.45	+0.9	
EUR	1.1559	+0.7	1.1511	1.1583	NOK	8.081	-1.0	Nasdaq	6,336	+0.3	25.3	Gold	1243.4	+0.8	
GBP	1.3046	-0.1	1.3005	1.3126	HKD	7.805	+0.0	Stoxx 50	3,479	-1.1	18.0	HRC steel	617.0	-0.5	
JPY	111.99	-0.6	111.69	112.38	CNY	6.747	-0.3	FTSE	7,390	-0.2	10.4	CRB	176.9	+0.6	
CAD	1.2623	-0.6			SGD	1.367	-0.2	DAX	12,430	-1.2	23.5	Wheat Chic.	526.8	-0.7	
NZD/AUD	0.9286	-1.0			IDR	13,309	-0.1	CAC 40	5,173	-0.3	18.7	Sugar	14.10	+0.1	
NZD/EUR	0.6364	-0.2			THB	33.57	-0.1	Nikkei	20,000	-0.6	19.6	Cotton	68.86	+0.4	
NZD/GBP	0.5639	+0.6			KRW	1,123	-0.4	Shanghai	3,188	+0.3	5.0	Coffee	134.9	+1.0	
NZD/JPY	82.38	-0.1			TWD	30.35	-0.1	ASX 200	5,687	-1.2	4.3	WM powder	3190.0	+0.3	
NZ TWI	78.06	-0.0			PHP	50.71	+0.1	NZX 50	7,707	+0.1	7.7	Australian Futures			
													3 year bond	97.95	0.01
													10 year bond	97.28	0.00
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	1.25	1.31	1.58	2.21	USD	2.26	-0.05	NZGB 3 04/15/20	2.15	-0.04	1 year	2.03	-0.02		
AUD	1.50	1.70	1.96	2.90	AUD	2.74	0.01	NZGB 6 05/15/21	2.32	-0.03	2 year	2.23	-0.02		
NZD	1.75	1.95	2.23	3.34	NZD	2.96	-0.01	NZGB 5 1/2 04/15/23	2.61	-0.02	5 year	2.81	-0.01		
EUR	0.00	0.06	-0.14	0.92	GER	0.55	-0.03	NZGB 2 3/4 04/15/25	2.83	-0.02	7 year	3.08	-0.01		
GBP	0.25	0.29	0.61	1.28	GBP	1.21	-0.06	NZGB 4 1/2 04/15/27	2.96	-0.01	10 year	3.34	-0.01		
JPY	-0.04	-0.01	0.04	0.26	JPY	0.07	-0.01	NZGB 3 1/2 04/14/33	3.30	-0.01	15 year	3.59	-0.01		
CAD	0.75	1.17	1.52	2.16	CAD	1.86	-0.03	NZGB 2 3/4 04/15/37	3.52	-0.01					

* 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 06:57

Source: Bloomberg

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