

19 June 2017

Events Round-Up

NZ: Manufacturing PMI, May: 58.5 vs. 56.9 prev.
 JN: BOJ policy rate, Jun: -0.1 vs. -0.1 exp.
 JN: BOJ 10-Yr Yield Target, Jun: 0.0 vs. 0.0 exp.
 US: Housing starts ('000), May: 1092 vs. 1220 exp.
 US: Building permits ('000), May: 1168 vs. 1249 exp.
 US: U. of Mich. sentiment, Jun P: 94.5 vs. 97.0 exp.
 US: U. of Mich. 5-10 Yr inflation, Jun P: 2.6 vs. 2.4 prev.

Good Morning

Soft US data saw the USD unwind some of its post-FOMC gain and helped nudge yields lower. US consumer confidence undershot expectations, falling to its lowest level since the November Presidential election, while housing starts and permits were also soft. The USD was already on a descending trend before the data were released, and the USD majors index ended the day down about 0.3%, falling on all the major cross rates.

Two voting Fed speakers added to the mix, outlining their views post-FOMC meeting. Kaplan said "...I'm basically saying that before I'd be comfortable taking the next step in raising the fed funds rate, I'm going to want to see more evidence that we're making progress in reaching our 2 percent inflation objective." In an essay, dissenter Kashkari outlined why he voted against last week's rate hike, preferring to see whether the recent drop in inflation was transitory or not. He argued that the Fed should be focusing on falling inflation rather than making a decision based on the "faith" in the Phillips curve, which seems no longer to be working.

The NZD ended the week closing up 0.6% to around 0.7250, which is around the area of technical resistance we've noted previously. Gains are expected to be tougher to make from here. It's a pretty uneventful week on the global economic calendar with no top tier US economic releases and few releases of note elsewhere. A few more Fed speakers hit the circuit and that's about it. With little news, we're not expecting much market action this week.

The RBNZ's latest OCR Review will be one of the few releases of interest, but even that is expected to pass with little market reaction. The Bank will likely keep its policy guidance unchanged, and should make only a few tweaks to its one-page press statement.

NZD/JPY closed at its highest level in 3½ months, up 0.6% to 80.4. This followed the BoJ's unchanged policy assessment on Friday. Governor Kuroda has been under pressure to lay out his exit plans for QE policy, but he didn't deviate from the script. He suggested that it wasn't the appropriate time to lay out in detail the exit strategy as it could lead to confusion in the market.

The NZD was up on all the other major crosses as well, although gains were modest, up in the order of 0.1-0.4%.

The US Treasury curve steepened, with the 2-year rate down 4bps to 1.31% and the 10-year rate down 1bp to 2.15%, driven by the softer data. It is likely that further Fed tightening from here requires a positive turnaround in the dataflow, particularly inflation. The market is not positioning itself for this, with CFTC data showing that net speculative positioning in 10-year futures is now the longest in ten years.

Citigroup's US economic surprise index has plunged further after last week's barrage of soft indicators and now sits at its lowest level in nearly six years. This highlights just how one-sided the economic data flow has been over the past few months. The treasury market would be vulnerable to a quick positive turnaround in the dataflow, possibly seeing a jump higher in yields if that occurred.

The local rates market on Friday saw higher yields across the curve. This largely reflected the move higher in US rates from the previous NZ close. The fact that the US Fed, Bank of Canada and Bank of England all came out with hawkish surprises last week also got the market's attention. Some took that as a warning sign that the mood of global central bankers was changing. It gives some food for thought about the outlook for policy from here. NZ's 2-year swap rate closed up 2.5bps to 2.19% while the 10-year swap rate closed up 4bps to 3.15%.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Westpac consumer confidence	Q2		111.9	10:00
NZ Performance of services index	May		52.8	10:30
US Fed's Dudley Holds Business Roundtable				00:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price				
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day			
NZD	0.7251	+0.6	0.7207	0.7259	CHF	0.9733	-0.2	S&P 500	2,433	+0.0	17.5	Oil (Brent)	47.37	+1.0	
AUD	0.7621	+0.6	0.7576	0.7630	SEK	8.710	-0.5	Dow	21,384	+0.1	21.0	Oil (WTI)	44.74	+0.6	
EUR	1.1198	+0.5	1.1139	1.1200	NOK	8.456	-0.6	Nasdaq	6,152	-0.2	28.2	Gold	1254.0	+0.1	
GBP	1.2783	+0.2	1.2759	1.2805	HKD	7.801	-0.0	Stoxx 50	3,544	+0.5	24.4	HRC steel	589.0	+0.0	
JPY	110.88	-0.0	110.65	111.42	CNY	6.811	+0.0	FTSE	7,464	+0.6	24.0	CRB	173.1	+0.2	
CAD	1.3213	-0.4			SGD	1.383	-0.1	DAX	12,753	+0.5	32.4	Wheat Chic.	481.5	+2.7	
NZD/AUD	0.9514	+0.1			IDR	13,299	+0.1	CAC 40	5,263	+0.5	25.5	Sugar	13.44	-0.2	
NZD/EUR	0.6475	+0.1			THB	33.94	-0.1	Nikkei	19,943	+0.6	27.8	Cotton	71.88	-0.0	
NZD/GBP	0.5672	+0.4			KRW	1,134	+0.9	Shanghai	3,123	-0.3	8.3	Coffee	126.0	-1.6	
NZD/JPY	80.40	+0.6			TWD	30.35	+0.3	ASX 200	5,774	+0.2	11.8	WM powder	3130.0	-0.2	
NZ TWI	78.14	+0.5			PHP	49.93	+0.5	NZX 50	7,553	+0.5	10.3	Australian Futures			
													3 year bond	98.18	-0.01
													10 year bond	97.55	-0.01
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	1.27	1.53	2.12	USD	2.15	-0.01	NZGB 3 04/15/20	2.09	0.02	1 year	2.02	0.02		
AUD	1.50	1.72	1.83	2.67	AUD	2.41	0.05	NZGB 6 05/15/21	2.18	0.03	2 year	2.20	0.03		
NZD	1.75	1.95	2.20	3.15	NZD	2.77	0.05	NZGB 5 1/2 04/15/23	2.45	0.04	5 year	2.68	0.04		
EUR	0.00	0.06	-0.19	0.75	GER	0.28	-0.01	NZGB 2 3/4 04/15/25	2.66	0.04	7 year	2.91	0.04		
GBP	0.25	0.29	0.52	1.09	GBP	1.02	-0.01	NZGB 4 1/2 04/15/27	2.77	0.05	10 year	3.15	0.04		
JPY	-0.05	-0.01	0.04	0.24	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.08	0.05	15 year	3.40	0.04		
CAD	0.50	1.17	1.24	1.84	CAD	1.52	-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: Sat morning NY close

Source: Bloomberg

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