

19 May 2017

## Events Round-Up

JN: GDP (q/q%), Q1 P: 0.5 vs. 0.5 exp.

NZ: ANZ consumer confidence, May: 123.9 vs. 121.7

AU: Employment change ('000), Apr: 37.4 vs. 5.0 exp.

AU: Unemployment rate (%), Apr: 5.7 vs. 5.9 exp.

UK: Retail sales ex auto fuel (y/y%), Apr: 4.5 vs. 2.6 exp.

US: Philly Fed business outlook, May: 38.8 vs. 18.5 exp.

## Good Morning

Markets are in a calmer mood following the big risk-off move the previous day. After the chunky 1.8% drop in the S&P500 yesterday, it is up 0.8% for the day, while the VIX index has fallen from around 15.5 to 14.5. The USD has recovered as well. Much of the positive movement has been attributed to a Zero-Hedge report which highlighted an earlier testimony by former FBI director Comey, where he said that "he had not been pressured to close an investigation for political purposes". This might get President Trump off the hook.

While President Trump is now officially under investigation over some of his recent actions, he'll be pleased that another President is now on the naughty seat and has diverted some attention away from him. Allegations have been thrown at President Temer of Brazil that he approved bribery payments for the country's disgraced former speaker of the lower house. Brazilian markets have spat the dummy and this has helped support the USD, which is up against almost all the majors and EM currencies. The Brazilian real is down 6%.

The USD has also been supported by some strong data. Jobless claims fell for a third consecutive week, with the figures consistent with further tightening in the US labour market. And against expectations for a weaker result, the Philly Fed index shot up to almost match the multi-decade high set earlier this year. The USD majors index is up 0.5%, regaining some of the lost ground this week.

GBP was driven up after very strong UK retail sales data, even if driven by good weather, blasting through 1.30 for the first time since September. However, the gain hasn't been sustained as there's only one way for spending to

go, especially when real wages are falling. There was a mini flash-crash this morning that saw it plunge 100 pips back below 1.29. It currently sits at 1.2940.

Amidst a stronger USD backdrop, the NZD is back below 0.69, but it is also softer on most of the crosses as well. Strong technical support kicks in about half a cent lower. The AUD has managed to perform relatively better, supported by stronger than expected labour market data released yesterday. NZD/AUD is down about half a cent to around the 0.93 mark.

Better risk sentiment and a stronger USD sees USD/JPY up to 111.50, after reaching as low as 110.25 last night. EUR met some resistance around 1.1170 and is now trading around 1.11.

Stronger USD data and a belief that economics will ultimately prevail over politics, as long as there is no crash in markets, have seen Fed pricing for hikes nudge up and a flattening of the US yield curve. The US 2-year Treasury rate is up 2bps to 1.27%. After falling to as low as 2.18% last night, the 10-year rate has pushed higher and sits this morning at 2.23%, flat for the day and close to the level at the NZ close.

NZ's yield curve flattened yesterday, but it was all driven by the long end of the curve, reacting to the overnight session in the US. One strong bid took out the government's \$150m tender of 2025 bonds at a below-market yield of 2.695%. The 2-year swap rate was flat for the day at 2.23%, anchored by an outlook of steady monetary policy, while the 10-year swap rate fell by 5bps to 3.24%, a fresh low for the year.

With little on the economic calendar today, US politics is likely to garner more attention than it deserves and impact market sentiment.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

	Period	Cons.	Prev.	NZT
NZ Net migration	Apr		6100	10:45
EC Consumer Confidence	May A	-3	-3.6	02:00

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	0.6894	-0.7	0.6887	0.6941	CHF	0.9799	+0.1			Oil (Brent)	52.45	+0.5		
AUD	0.7417	-0.2	0.7412	0.7465	SEK	8.809	+0.9	S&P 500	2,374	+0.7	16.0	Oil (WTI)	49.28	+0.4
EUR	1.1103	-0.5	1.1076	1.1146	NOK	8.478	+0.9	Dow	20,717	+0.5	18.2	Gold	1247.2	-0.9
GBP	1.2944	-0.2	1.2890	1.3048	HKD	7.782	-0.0	Nasdaq	6,060	+0.8	27.9	HRC steel	615.0	+0.0
JPY	111.47	+0.6	110.24	111.74	CNY	6.889	+0.2	Stoxx 50	3,562	-0.6	20.5	CRB	182.5	-0.4
CAD	1.3619	+0.1			SGD	1.393	+0.2	FTSE	7,436	-0.9	20.6	Wheat Chic.	439.8	+0.1
NZD/AUD	0.9295	-0.5			IDR	13,356	+0.2	DAX	12,590	-0.3	26.6	Sugar	16.03	-1.7
NZD/EUR	0.6209	-0.2			THB	34.52	+0.1	CAC 40	5,290	-1.1	22.5	Cotton	79.24	-1.1
NZD/GBP	0.5326	-0.5			KRW	1,125	+0.6	Nikkei	19,554	-1.3	17.5	Coffee	129.7	-3.5
NZD/JPY	76.85	-0.1			TWD	30.23	+0.3	Shanghai	3,090	-0.5	10.1	WM powder	3200.0	+0.0
NZ TWI	75.00	-0.5			PHP	49.85	+0.1	ASX 200	5,738	-0.8	7.8	<b>Australian Futures</b>		
												3 year bond	98.21	0.00
												10 year bond	97.49	-0.02
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	Last			
USD	1.00	1.18	1.50	2.16	USD	2.23	0.01	NZGB 3 04/15/20	2.12	-0.01	1 year	2.04	+0.01	
AUD	1.50	1.74	1.82	2.73	AUD	2.50	-0.03	NZGB 6 05/15/21	2.26	-0.03	2 year	2.23	+0.00	
NZD	1.75	1.99	2.23	3.24	NZD	2.84	-0.06	NZGB 5 1/2 04/15/23	2.54	-0.04	5 year	2.76	-0.02	
EUR	0.00	0.06	-0.15	0.79	GER	0.34	-0.04	NZGB 2 3/4 04/15/25	2.75	-0.05	7 year	3.00	-0.04	
GBP	0.25	0.31	0.54	1.12	GBP	1.06	-0.01	NZGB 4 1/2 04/15/27	2.84	-0.06	10 year	3.24	-0.05	
JPY	-0.05	-0.01	0.04	0.25	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.13	-0.06	15 year	3.50	-0.06	
CAD	0.50	1.17	1.00	1.71	CAD	1.44	-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 06:56

Source: Bloomberg

## Contact Details

New Zealand	Kymerly Martin	Senior Market Strategist	+ (64 4) 924 0419
	Jason Wong	Currency Strategist	+ (64 4) 924 7652
Australia	Ray Attrill	Global Co-Head of FX Strategy	+ (61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+ (61 2) 9237 7109
London	Nick Parsons	Global Co-Head of FX Strategy	+ (44 0) 20 7710 2993
	Gavin Friend	Markets Strategist	+ (44 0) 20 7710 0898

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