

2 August 2017

Events Round-Up

CH: Caixin China PMI Mfg, Jul: 51.1 vs 50.4 exp.
AU: RBA Cash Rate Target: 1.5 vs 1.5 exp.
GE: Unemployment Claims Rate, Jul: 5.7 vs 5.7 exp.
UK: Markit UK PMI Manufacturing, Jul: 55.1 vs 54.5 exp.
EC: GDP SA QoQ, 2Q A: 0.6 vs 0.6 exp.
NZ: Dairy Auction Avg. Win Price MT: 3343 vs 3387 prev.
US: Personal Income, Jun: 0.0 vs 0.4 exp.
US: Personal Spending, Jun: 0.1 vs 0.1 exp.
US: PCE Deflator MoM, Jun: 0.0 vs 0.0 exp.
US: PCE Core MoM, Jun: 0.1 vs 0.1 exp.
US: Markit US Manufacturing PMI, Jul F: 53.3 vs 53.2 exp.
US: ISM Manufacturing, Jul: 56.3 vs 56.4 exp.
US: Construction Spending MoM, Jun: -1.3 vs 0.4 exp.

Good Morning

A new month saw some relief for the beleaguered USD. But not much. After a five month losing streak, its longest since 2011, the USD was up smalls overnight. Equities may gain on both sides of the Atlantic, as oil prices and yields eased.

Annual inflation in the US core PCE deflator came in at 1.5%, a tick above expectations. This set the stage for the USD to recoup some losses, but other mixed data outcomes capped any budding enthusiasm. Personal incomes were lower than anticipated and construction fell. US manufacturing surveys remained strong and close to expectations.

With some mild gyrations around data releases, the DXY US dollar index currently sits up around 0.2% for the day. USD/JPY briefly dipped under 110.00, as US yields dipped, before paring losses. USD/JPY opens this morning about flat at 110.30.

EU GDP rose 0.6% in Q2, matching expectations. Some of the gloss was taken off it with a mild downward revision to Q1, but annual growth did hit expectations at 2.1%. The data indicate a decent rate of economic expansion is occurring in the region. A strong EU PMI reading adds to the case, although in that survey price pressure remained subdued. Nothing here to dissuade the ECB from starting to discuss over coming months how to taper QE but also nothing to generate urgency. EUR/USD has retreated 0.4% from its highest level since early 2015 up toward

1.1850 yesterday. The pair currently sits around 1.1800. After gaining ground on a solid PMI reading, GBP/USD now sits unchanged on the day at around 1.3200.

NZD, AUD, CAD, and NOK are all lower against the USD overnight as oil gave back part of its large gains over the past week as the market awaits signs of rebalancing. Crude benchmarks are down about 2% over the session.

NZD was unmoved on yesterday morning's news that the NZ labour party changed its leadership following recent poor poll results. The election is less than two months away, on 23 September. But as oil prices eased overnight, NZD/USD pressed down toward 0.7460 before finding support. The NZD was not helped by dairy prices easing 1.6% at the latest GDT auction, against expectations of a small rise.

NZD/USD opens this morning down around 0.5% at about 0.7470. Today's Q2 labour market data holds the key to NZD performance today, with any disappointment to robust expectations likely to test downside support initially around 0.7460 ahead of 0.7400. Watch near term resistance around 0.7525 on better than expected data.

A bit of AUD/USD volatility around the RBA decision late yesterday, as the Bank noted a higher AUD is weighing on the outlook for growth and contributing to subdued price pressures. But ultimately the RBA delivered little surprise and an reasonably upbeat assessment of the economy. Overnight AUD/USD has tracked other commodity currencies lower overnight, despite iron ore prices holding up. AUD/USD sits about 0.5% lower this morning around 0.7965. NZD/AUD remains little changed at around 0.9380, just above its 100dma that sits around 0.9370.

US 10 year Treasury yields initially rose overnight as US PCE annual inflation came in slightly above expectations but reversed course on other mixed data and as oil prices pressed lower. After looking up toward 2.32%, US 10 year Treasury yields currently sit down 4bps for the day, at around 2.25%. This saw some curve flattening as short end yields eased around 1-2 bps. European long end yields also fell, with 10 year German Bund yields down 5bps to slip below 0.50% for the first time in a week.

Lower yields offshore will set the initial tone locally today, but with some focus on NZ's Q2 labour data this morning. NZ 2-year swap rose 1bp yesterday to close just under 2.23% but remains within the tight 2.20% to 2.25% range that has contained it over the past two weeks. NZ 10-year swap rose about 3bps yesterday to close at 3.315%.

We don't expect any market movement from this morning's speech by RBNZ Deputy Governor and Head of Financial Stability, Grant Spencer, on banking regulation.

Overnight some Fed speak is on the agenda, with the ADP employment survey the latest guide on the US labour market ahead of Friday's payrolls.

doug_steel@bnz.co.nz

	Period	Cons.	Prev.	NZT
NZ Unemployment Rate	2Q	4.8	4.9	10:45
NZ Employment Change QoQ	2Q	0.7	1.2	10:45
NZ Pwt Wages Inc Overtime QoQ	2Q	0.4	0.4	10:45
AU Building Approvals MoM	Jun	1	-5.6	13:30
US ADP Employment Change	Jul	190	158	00:15
US Fed's Mester Speaks to Community Banking Conference				04:00
US Fed's Williams Speaks in Las Vegas on Monetary Policy				07:30

Source: Bloomberg, BNZ

Coming Up

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7471	-0.5	0.7462	0.7512	CHF	0.9660	-0.1	S&P 500	2,475	+0.2	14.0	Oil (Brent)	51.80	-1.7
AUD	0.7965	-0.5	0.7961	0.8035	SEK	8.113	+0.6	Dow	21,962	+0.3	19.3	Oil (WTI)	49.19	-2.0
EUR	1.1800	-0.4	1.1785	1.1839	NOK	7.930	+0.8	Nasdaq	6,358	+0.2	22.6	Gold	1270.5	+0.3
GBP	1.3204	-0.1	1.3197	1.3245	HKD	7.813	+0.0	Stoxx 50	3,477	+0.8	17.2	HRC steel	628.0	+0.5
JPY	110.31	+0.0	109.93	110.59	CNY	6.718	-0.1	FTSE	7,424	+0.7	10.9	CRB	180.8	-1.0
CAD	1.2537	+0.5			SGD	1.358	+0.2	DAX	12,251	+1.1	18.6	Wheat Chic.	487.8	-2.6
NZD/AUD	0.9380	-0.1			IDR	13,324	-0.0	CAC 40	5,127	+0.3	16.3	Sugar	14.88	-0.2
NZD/EUR	0.6331	-0.2			THB	33.28	-0.1	Nikkei	19,986	+0.3	21.9	Cotton	71.17	+1.0
NZD/GBP	0.5658	-0.5			KRW	1,121	+0.2	Shanghai	3,293	+0.6	10.8	Coffee	137.9	-1.0
NZD/JPY	82.41	-0.5			TWD	30.21	-0.0	ASX 200	5,772	+0.9	4.2	WM powder	3235.0	-0.8
NZ TWI	78.76	-0.4			PHP	50.41	-0.2	NZX 50	7,729	+0.5	5.5	Australian Futures		
Interest Rates										3 year bond 98.06 0.03				
										10 year bond 97.32 0.02				
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	1.31	1.59	2.21	USD	2.25	-0.04	NZGB 3 04/15/20	2.10	0.00	1 year	2.03	0.00	
AUD	1.50	1.69	1.87	2.86	AUD	2.71	0.04	NZGB 6 05/15/21	2.26	0.01	2 year	2.23	0.01	
NZD	1.75	1.95	2.23	3.31	NZD	3.04	0.05	NZGB 5 1/2 04/15/23	2.60	0.02	5 year	2.78	0.02	
EUR	0.00	0.06	-0.16	0.89	GER	0.49	-0.05	NZGB 2 3/4 04/15/25	2.87	0.04	7 year	3.05	0.02	
GBP	0.25	0.29	0.61	1.27	GBP	1.21	-0.02	NZGB 4 1/2 04/15/27	3.04	0.05	10 year	3.31	0.03	
JPY	-0.06	-0.02	0.04	0.26	JPY	0.08	-0.01	NZGB 3 1/2 04/14/33	3.42	0.06	15 year	3.57	0.03	
CAD	0.75	1.17	1.59	2.23	CAD	1.96	-0.10	NZGB 2 3/4 04/15/37	3.65	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 07:52

Source: Bloomberg

Contact Details

New Zealand	Jason Wong	Senior Market Strategist	+(64 4) 924 7652
Australia	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
London	Nick Parsons	Head of Research, UK & Europe	+(44 0) 20 7710 2993
	Gavin Friend	Senior Market Strategist	+(44 0) 20 7710 0898

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.