

20 July 2017

## Events Round-Up

US: Housing starts ('000), Jun: 1215 vs. 1160 exp.

US: Building permits ('000), Jun: 1254 vs. 1200 exp.

## Good Morning

After our tumultuous Tuesday session markets appear to have hit the pause button, seemingly moving sideways over the past 18-24 hours. A closer look though does reveal for the most part an ongoing decline for the USD on most pairings, still hurting from the implosion of US health care reform. There is in most instance further favour shown for equity indices and commodity prices.

Hesitancy before the ECB policy meeting is a factor and a possible explanation for the EUR drifting off at least half a cent through the European session.

Counter to that are fresh highs for the CAD and AUD, underpinned by commodity price action, the CAD at 1.2600 (best since Q2 2016) and the AUD at 0.7960 (last seen in Q2 2015). The NZD has spent the session consolidating its advance to the 0.7350 level, trading in a 30pt range for the most part.

Markets are divided on ECB expectations. Our house view is that the ECB will remove its pledge to increase QE as it has been very deliberate in laying out its policy intentions as it gradually backs away from settings designed for deflation.

That process started with changes in the wording of their messages in late April and continued at their June meeting when Draghi upgraded the balance of risks to neutral and removed the easing bias. Removing the props in steps is an important part of the process in terms of clarity.

Comments last night from the Governor of the Banque de France (Villeroy de Galhau) noted that the central

bank is adapting its intensity depending on the economic situation and inflation, this is consistent with the message from Draghi three weeks ago in Sintra that policy can be adjusted in line with the recovery. An announcement on actual tapering will we believe be made at the September meeting with QT starting in January 2018 and lasting for 9 months.

Elsewhere overnight there was a recovery in US housing starts and permits that was anticipated, while the S&P extended all-time highs buoyed by earnings reports and the energy sector.

Most bond rates are little changed overnight, while locally yesterday despite the CPI print of Tuesday traders are respectful of sentiment that is dominated by the global policy unwind theme. The US 10Y trades at 2.27%, up just 1bp on the day and confined to a 2.5pt range.

Australian labour data stands out on the calendar today and following three stronger than forecast results we might be due something closer to trend or indeed a shade on the shy side. NAB looks for 15k growth in employment, consensus is for a light tick up to 5.6% in the unemployment rate. Still to come this week from across the Tasman, deputy governor DeBelle and perhaps some characteristically frank comments when he speaks on global influences on domestic policy.

The BOJ meet today and this should pass without any market fallout, the central bank expected to continue its commitment to maintaining record stimulus in contrast to their peers on the global stage.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	NAB business confidence	2Q		6	13:30
AU	Employment change ('000)	Jun	15	42	13:30
AU	Unemployment rate (%)	Jun	5.6	5.5	13:30
NZ	NZ plans to sell \$200m 2025 Bonds				14:05
UK	Retail sales ex auto fuel (m/m%)	Jun	0.5	-1.6	20:30
EC	ECB main refinancing rate %		0.0	0.0	23:45
EC	ECB deposit facility rate %		-0.4	-0.4	23:45
EC	ECB asset purchase target, €bn	Jul	60	60	23:45
US	Philly Fed business outlook	Jul	23.7	27.6	00:30
EC	Consumer confidence	Jul	-1.2	-1.3	02:00

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**			
Indicative overnight ranges (*)				Other FX				Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day
NZD	0.7361	+0.2	0.7349	0.7388	CHF	0.9556	+0.1	S&P 500	2,472	+0.4	14.2		Oil (Brent)	49.73	+1.8
AUD	0.7956	+0.5	0.7912	0.7959	SEK	8.290	-0.1	Dow	21,617	+0.2	16.5		Oil (WTI)	47.18	+1.6
EUR	1.1518	-0.3	1.1510	1.1548	NOK	8.054	-0.4	Nasdaq	6,381	+0.6	26.7		Gold	1241.0	-0.1
GBP	1.3021	-0.1	1.3011	1.3053	HKD	7.808	+0.0	Stoxx 50	3,500	+0.6	19.4		HRC steel	620.0	+0.0
JPY	111.84	-0.2	111.56	112.23	CNY	6.752	+0.1	FTSE	7,431	+0.6	11.0		CRB	178.7	+1.0
CAD	1.2601	-0.2			SGD	1.369	+0.1	DAX	12,452	+0.2	24.8		Wheat Chic.	526.8	+0.3
NZD/AUD	0.9252	-0.3			IDR	13,321	+0.1	CAC 40	5,216	+0.2	20.5		Sugar	14.50	+3.4
NZD/EUR	0.6391	+0.5			THB	33.59	+0.1	Nikkei	20,021	+0.1	20.0		Cotton	68.76	-0.2
NZD/GBP	0.5653	+0.3			KRW	1,121	-0.2	Shanghai	3,231	+1.4	6.7		Coffee	135.8	+0.7
NZD/JPY	82.33	-0.0			TWD	30.42	+0.2	ASX 200	5,732	+0.8	4.4		WM powder	3150.0	-1.3
NZ TWI	78.09	+0.1			PHP	50.85	+0.3	NZX 50	7,733	+0.3	7.8		<b>Australian Futures</b>		
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	1.59	2.23	USD	2.27	0.01	NZGB 3 04/15/20	2.15	-0.00			1 year	2.04	0.01
AUD	1.50	1.70	2.01	2.92	AUD	2.72	-0.02	NZGB 6 05/15/21	2.31	-0.01			2 year	2.23	0.00
NZD	1.75	1.94	2.23	3.31	NZD	2.94	-0.02	NZGB 5 1/2 04/15/23	2.60	-0.02			5 year	2.79	-0.02
EUR	0.00	0.06	-0.15	0.91	GER	0.54	-0.01	NZGB 2 3/4 04/15/25	2.82	-0.02			7 year	3.06	-0.02
GBP	0.25	0.29	0.60	1.25	GBP	1.19	-0.02	NZGB 4 1/2 04/15/27	2.94	-0.02			10 year	3.31	-0.03
JPY	-0.05	-0.01	0.04	0.26	JPY	0.08	0.00	NZGB 3 1/2 04/14/33	3.28	-0.02			15 year	3.56	-0.03
CAD	0.75	1.17	1.54	2.19	CAD	1.89	0.03	NZGB 2 3/4 04/15/37	3.50	-0.02					

\* 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 07:24

Source: Bloomberg

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