

20 June 2017

## Events Round-Up

NZ: Westpac consumer confid., Q2: 113.4 vs. 111.9 prev.

NZ: Perform. of services index, May: 58.8 vs. 53.2 prev.

## Good Morning

It's all looking pretty good out there, with global equities showing solid gains, helped by a positive turnaround in the US tech sector and no releases of US data – which have shown an underwhelming run recently – to spoil the party. Argentina plans to issue 100-year bonds, a country that has defaulted five times in the last century, at less than 8%. It must be a bull market.

On Sunday, newly-elected French President Macron's party won a decisive majority in Parliamentary elections, giving him plenty of scope to push through his agenda, which includes liberalising the labour market and pushing for closer European integration. The result was well-anticipated and had little impact on the euro or French assets.

The only event of note was a talk given by the influential NY Fed President Dudley. He was upbeat about the growth outlook, suggesting that although the current recovery was long, "we still have quite a long way to go". He was also optimistic that the tight labour market would lead to higher inflation and was keen to "very judiciously" withdraw monetary policy accommodation.

This drove a broadly based recovery in the USD, although the move has been fairly modest, with the USD majors index up 0.3%. US Treasury yields are higher across the curve, with the 2-year rate up 4.5bps to 1.36% and the 10-year rate up 3.5bps to 2.185%. The latter has now almost fully recovered the 10bps fall in yield after the soft CPI result last week, with the Fed's unrevised firm policy outlook supporting the move.

The market is still sceptical that the Fed will hike rates again this year, with the probability of a rate hike before year-end currently sitting around 45%. We think that the Fed will probably pause the hiking cycle in September and instead begin to reduce its balance sheet and leave the next rate hike until December. Beyond this year, the market prices in only one hike during calendar 2018.

Apart from the stronger USD overnight, there is little else

to report on currency markets, with little variation in cross currency moves. The yen is the weakest of the majors, reflecting higher US rates. USD/JPY is up 0.6% to 111.50 and NZD/JPY is up to a fresh 3-month high of 80.6, after earlier touching 81. If we're right in our view that US rates will track higher in the second half, then downward pressure in the yen should continue, given the BoJ's yield curve control policy which ensures widening global-Japan bond yield spreads.

The NZD almost touched 0.73 in yesterday's illiquid Monday Asian trading session for no good reason, although stronger PSI and consumer confidence data didn't go unnoticed. It has been a fairly steady fall since then and the NZD is currently near its low for the day around 0.7230. At the local close yesterday, NZD crosses were all higher, but they have since moderated, and now look fairly flat for the day. The AUD is around 0.76 and NZD/AUD is flat at 0.9520.

The local rates market saw a slight bias to higher rates, with 2-year and 10-year swap rates up about 1bp to 2.205% and 3.155% respectively. From the end of last week, some paying interest emerged at the short end of the curve, with some fearing that the RBNZ on Thursday could surprise with a more hawkish tone, as did the Bank of England, US Fed and Bank of Canada last week. We doubt any surprise will be forthcoming, with the RBNZ likely to repeat the key "neutral" policy message it has been delivering all year.

There's a little bit more on the economic calendar over the next 24 hours, with key speeches by the Fed's Fischer and the Bank of England's Carney's Mansion House speech. Tonight's GDT dairy auction is expected to be fairly flat, although the recent trend has been for positive surprises.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Consumer confidence	Jun		123.9	13:00
AU	RBA June meeting minutes				13:30
US	Fed's Fischer speaks in Amsterdam				19:15
UK	BoE's Carney speaks at Mansion House, London				19:30
NZ	GDT Dairy Auction avg. winning price			3395	
US	Fed's Kaplan speaks in San Francisco				07:00

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	0.7230	-0.3	0.7228	0.7280	CHF	0.9755	+0.2			S&P 500	2,449	+0.7	18.2	Oil (Brent)	46.94	-0.9
AUD	0.7596	-0.3	0.7585	0.7620	SEK	8.749	+0.5			Dow	21,503	+0.6	21.7	Oil (WTI)	44.24	-1.1
EUR	1.1150	-0.4	1.1143	1.1213	NOK	8.493	+0.4			Nasdaq	6,229	+1.3	29.8	Gold	1244.9	-0.7
GBP	1.2735	-0.4	1.2724	1.2815	HKD	7.800	-0.0			Stoxx 50	3,580	+1.0	25.6	HRC steel	589.0	+0.0
JPY	111.53	+0.6	110.91	111.56	CNY	6.820	+0.1			FTSE	7,524	+0.8	25.0	CRB	171.2	-1.1
CAD	1.3222	+0.1			SGD	1.387	+0.3			DAX	12,889	+1.1	33.8	Wheat Chic.	483.0	+0.3
NZD/AUD	0.9518	-0.0			IDR	13,282	-0.1			CAC 40	5,311	+0.8	26.6	Sugar	13.46	+0.1
NZD/EUR	0.6484	+0.1			THB	33.97	+0.1			Nikkei	20,068	+0.6	25.7	Cotton	71.39	-0.7
NZD/GBP	0.5677	+0.0			KRW	1,133	-0.1			Shanghai	3,144	+0.7	8.8	Coffee	126.6	+0.5
NZD/JPY	80.64	+0.3			TWD	30.35	+0.0			ASX 200	5,805	+0.5	10.4	WM powder	3175.0	+0.5
NZ TWI	78.06	-0.1			PHP	49.93	-0.0			NZX 50	7,592	+0.5	10.5	<b>Australian Futures</b>		
											3 year bond	98.17	-0.01			
											10 year bond	97.54	-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	1.25	1.27	1.56	2.16	USD	2.19	0.03	NZGB 3 04/15/20	2.11	0.02	1 year	2.02	0.00			
AUD	1.50	1.72	1.87	2.70	AUD	2.41	-0.00	NZGB 6 05/15/21	2.20	0.01	2 year	2.21	0.01			
NZD	1.75	1.93	2.21	3.16	NZD	2.77	0.00	NZGB 5 1/2 04/15/23	2.46	0.01	5 year	2.69	0.01			
EUR	0.00	0.06	-0.18	0.75	GER	0.28	0.01	NZGB 2 3/4 04/15/25	2.67	0.00	7 year	2.92	0.01			
GBP	0.25	0.30	0.55	1.10	GBP	1.03	0.01	NZGB 4 1/2 04/15/27	2.77	0.00	10 year	3.16	0.00			
JPY	-0.05	-0.01	0.04	0.24	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	3.08	0.00	15 year	3.40	0.00			
CAD	0.50	1.17	1.28	1.86	CAD	1.54	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 06:41

Source: Bloomberg

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