

21 August 2017

Events Round-Up

CA: CPI (y/y%), Jul: 1.2 vs. 1.2 exp.

US: U. of Mich. cons. sentiment, Aug: 97.6 vs. 94.0 exp.

US: U. of Mich. 5-10y inflation exp., Aug: 2.5 vs. 2.6 prev.

Good Morning

Commodity currencies ended the week on a healthy note and the ousting of Trump's chief strategist Bannon was seen as a positive sign by the market.

US political factors appeared to remain in the driving seat on Friday, seeing the USD remain under pressure through much of the session. That trend was halted after US consumer sentiment data came in much better than expected, rising to a 7-month high, and reports surfaced that Trump's chief strategist Bannon would be leaving the White House Administration. The removal of Bannon is another move by new Chief of Staff Kelly to impose some order to the Administration, a positive development in the eyes of the market. There is some hope now that the economic policy agenda gets back on track.

USD/JPY fell by 0.4% for the day to 109.20, but traded in a wide range of 108.60-109.60 reflecting the US political machinations. The USD-positive news was enough to stem the slide in the USD but not significant enough to drive any notable recovery overall. The DXY ended the day down 0.2% while the TWI-majors index was down 0.4%.

The NZD ended the week around 0.7315, the same level it started the week and up 0.4% for the day. It caught a tailwind from other rising commodity currencies, with NOK, CAD, AUD and the NZD the best performers for the session. Support continued for metal prices, with many reaching multi-year highs amid solid demand and diminishing stockpiles, iron ore prices (Qingdao benchmark) rose by more than 3% for the second consecutive day, and oil prices were up in the order of 3%+, helped by reports of a US refinery shutdown.

CFTC positioning data showed some trimming of NZD positions in the week through to 15 August (25k contracts vs the peak of 35k a couple of weeks earlier), but net long positioning remains at a historically high level, keeping the NZD vulnerable to the downside on any negative news.

The NZD was flat to modestly higher on most of the crosses, with modest falls against other commodity currencies, with NZD/AUD down slightly to 0.9220 and NZD/CAD down to around 0.94.

US Treasury yields tracked the over-arching political mood, with the 10-year rate reaching a low of 2.16% when sentiment was at its worst, but the strong consumer sentiment data and removal of Bannon saw rates climb to close the session at 2.19%, little changed overall. NZ swap rates closed Friday down 1-2bps across the curve, with global forces in the driving seat.

It's a fairly quiet economic calendar for the week ahead. Market attention will be focused on the Jackson Hole symposium towards the end of the week hosted by the Kansas City Fed. Fed Chair Yellen is scheduled to talk about financial stability. Last week the Fed's Dudley commented that rising asset prices suggested the Fed likely needed to do more to tighten financial conditions. If Yellen echoes these thoughts then that could lead to higher bond yields by the end of the week.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Net Migration SA	Jul		6350	10:45
GE ZEW Survey Expectations	Aug		17.5	21:00

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	0.7313	+0.4	0.7287	0.7335	CHF	0.9646	+0.2	S&P 500	2,426	-0.2	11.1	Oil (Brent)	52.72	+3.3	
AUD	0.7929	+0.6	0.7885	0.7944	SEK	8.116	-0.3	Dow	21,675	-0.4	16.8	Oil (WTI)	48.51	+3.0	
EUR	1.1761	+0.3	1.1721	1.1774	NOK	7.906	-0.8	Nasdaq	6,217	-0.1	18.7	Gold	1285.7	-0.1	
GBP	1.2870	+0.0	1.2832	1.2917	HKD	7.824	+0.0	Stoxx 50	3,446	-0.5	16.1	HRC steel	621.0	+0.0	
JPY	109.18	-0.4	108.60	109.60	CNY	6.670	-0.1	FTSE	7,324	-0.9	6.8	CRB	177.5	+0.9	
CAD	1.2585	-0.8			SGD	1.363	-0.3	DAX	12,165	-0.3	15.4	Wheat Chic.	442.5	+0.4	
NZD/AUD	0.9223	-0.1			IDR	13,362	+0.0	CAC 40	5,114	-0.7	16.2	Sugar	13.41	+0.9	
NZD/EUR	0.6218	+0.1			THB	33.22	-0.1	Nikkei	19,470	-1.2	17.7	Cotton	67.79	+0.5	
NZD/GBP	0.5682	+0.4			KRW	1,141	+0.3	Shanghai	3,269	+0.0	5.2	Coffee	131.7	-0.3	
NZD/JPY	79.84	+0.1			TWD	30.35	+0.1	ASX 200	5,747	-0.6	4.0	WM powder	3255.0	-0.2	
NZ TWI	77.36	+0.2			PHP	51.45	+0.3	NZX 50	7,874	+0.0	6.3	Australian Futures			
													3 year bond	98.06	0.01
													10 year bond	97.41	0.02
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	1.57	2.14	USD	2.19	0.01	NZGB 3 04/15/20	2.00	-0.01		1 year	2.01	-0.01	
AUD	1.50	1.69	1.90	2.79	AUD	2.62	-0.02	NZGB 6 05/15/21	2.14	-0.01		2 year	2.18	-0.00	
NZD	1.75	1.95	2.18	3.13	NZD	2.83	-0.02	NZGB 5 1/2 04/15/23	2.43	-0.01		5 year	2.64	-0.01	
EUR	0.00	0.06	-0.17	0.83	GER	0.41	-0.01	NZGB 2 3/4 04/15/25	2.69	-0.02		7 year	2.88	-0.01	
GBP	0.25	0.28	0.55	1.17	GBP	1.09	0.00	NZGB 4 1/2 04/15/27	2.83	-0.02		10 year	3.13	-0.02	
JPY	-0.05	-0.04	0.02	0.21	JPY	0.03	-0.02	NZGB 3 1/2 04/14/33	3.21	-0.02		15 year	3.40	-0.02	
CAD	0.75	1.17	1.57	2.14	CAD	1.87	0.02	NZGB 2 3/4 04/15/37	3.46	-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: NY close Sat morn.

Source: Bloomberg

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