

21 June 2017

Events Round-Up

NZ: ANZ Consumer confidence, Jun: 127.8 vs. 123.9 prev.

NZ: GDT Dairy Auction avg. winning price: -0.8%

Good Morning

With no global economic releases of note, traders were focused on central bank speakers, with the BoE's Carney's comments helping drive a weaker GBP. The only other point of interest overnight was a further fall in oil prices.

Oil is under the pump, with WTI crude down over 3% at one stage, taking it below USD 43 per barrel, the lowest level since November. Rising production in countries that are not part of the OPEC supply agreement, including the US and Libya, are more than offsetting the OPEC-led curb on production, and traders are therefore nervous. Lower oil prices were a drag on the S&P500, which is currently down 0.4%.

Lower oil prices are also dragging down US Treasury yields, with the 2-year rate down 1bp to 1.35% and the 10-year rate down 3bps to 2.16%. Lower oil prices are leading to lower inflation expectations, with the implied break-even inflation rate on US 10-year inflation-protected bonds down to 1.67%, the lowest level since October. It's an added complication to the inflation outlook and the appropriate path of monetary policy.

Fed Vice-Chair Fischer didn't comment on US monetary policy in his speech, but yesterday Evans (voter) did. Overnight he was interviewed on CNBC where he commented that he still thought that inflation will go up to 2% but added "I will say that the most recent inflation data make me a little nervous about that". Evans said that the Fed could "go until December" before making judgment on another rate hike, which aligns with our expectation. In the meantime though, the Fed is likely to kick off its balance sheet reduction programme.

Bank of England Governor Carney triggered a fall in GBP in his keenly awaited Mansion House speech. In contrast to three of his fellow MPC members who voted for a rate increase last week, he signalled no urgency to raise interest rates anytime soon, owing to concerns about the impact Brexit will have on the economy. GBP lost 80pips on that message to 1.2670 and was hit again after S&P said that they "don't have to wait" until the end of the Brexit talks to review the UK's credit standing. GBP is now down 0.9% for the day to 1.2625, helping drive NZD/GBP up to 0.5740.

EUR has slipped alongside GBP, albeit to a much lesser extent, down only 0.2% to 1.1125. In addition to the softer CAD on falling oil prices, the USD majors index has managed to lift about 0.25%, taking the cumulative gain since last week's FOMC statement to 1.1%.

The NZD is up on all the major crosses, although apart from NZD/GBP, gains have been contained to within 0.1-0.5%, with much of that occurring during NZ trading hours. NZD/USD is back hovering around the key technical resistance level of 0.7250. The GDT dairy auction overnight was broadly in line with expectations, with average prices down by 0.8%, following the stronger-than-expected run over the last couple of months.

Yesterday, the local rates market saw small rises across the curve and a flattening bias, with the 2-year swap rate up 2.5bps to 2.23% and the 10-year rate less than 1bp higher at 3.16%. A flow of paying interest at the short end was still working its way through the market. This was triggered by offshore traders nervous ahead of Thursday's OCR Review in light of the Fed, BoE and Bank of Canada's hawkish vibes last week.

While we expect only minor tweaks to the RBNZ's statement and no change to its neutral policy guidance, the bigger risk is that the Statement reads more dovish, than more hawkish, compared to the May MPS. Falling oil prices and the stronger NZD will give the Bank more confidence that the recent run-up in inflation to over 2% is just a temporary phenomenon. Softer Q1 GDP data will also be in the mix, although we'd argue that economic momentum remains sound, as indicated by recent positive business and consumer surveys, while an easing in fiscal policy has made us more optimistic on the growth path ahead. Much stronger terms of trade – a combination of rising export prices and lower oil prices – are another added source of optimism about the NZ economic outlook.

The day ahead is another quiet one, with a sparse economic calendar. As we go to press, the Fed's Harker (voter) is about to deliver a speech and apart from that there isn't much else to look forward to.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
US Existing Home Sales	May	5.54	5.57	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	Net Day			
NZD	0.7247	+0.2	0.7229	0.7268	CHF	0.9754	-0.0	S&P 500	2,441	-0.5	17.2	Oil (Brent)	46.02	-1.9	
AUD	0.7582	-0.2	0.7571	0.7624	SEK	8.791	+0.6	Dow	21,498	-0.1	20.7	Oil (WTI)	43.23	-2.2	
EUR	1.1128	-0.2	1.1119	1.1165	NOK	8.550	+0.6	Nasdaq	6,203	-0.6	28.2	Gold	1241.0	-0.3	
GBP	1.2627	-0.9	1.2604	1.2758	HKD	7.801	+0.0	Stoxx 50	3,561	-0.5	21.0	HRC steel	589.0	+0.0	
JPY	111.41	-0.1	111.31	111.79	CNY	6.829	+0.1	FTSE	7,473	-0.7	20.4	CRB	169.6	-1.0	
CAD	1.3255	+0.3			SGD	1.390	+0.2	DAX	12,815	-0.6	28.6	Wheat Chic.	487.8	+1.0	
NZD/AUD	0.9558	+0.4			IDR	13,292	+0.1	CAC 40	5,294	-0.2	22.0	Sugar	13.61	+1.1	
NZD/EUR	0.6512	+0.4			THB	34.01	+0.1	Nikkei	20,230	+0.8	25.1	Cotton	71.35	-0.1	
NZD/GBP	0.5739	+1.1			KRW	1,135	+0.2	Shanghai	3,140	-0.1	9.1	Coffee	124.6	-1.6	
NZD/JPY	80.74	+0.1			TWD	30.39	+0.1	ASX 200	5,757	-0.8	9.2	WM powder	3170.0	+0.0	
NZ TWI	78.35	+0.4			PHP	50.15	+0.4	NZX 50	7,587	-0.1	10.9	Australian Futures			
													3 year bond	98.16	0.00
													10 year bond	97.55	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	1.28	1.55	2.14	USD	2.15	-0.03	NZGB 3 04/15/20	2.13	0.02	1 year	2.04	0.02		
AUD	1.50	1.72	1.86	2.70	AUD	2.42	0.01	NZGB 6 05/15/21	2.22	0.03	2 year	2.23	0.02		
NZD	1.75	1.95	2.23	3.16	NZD	2.79	0.02	NZGB 5 1/2 04/15/23	2.48	0.02	5 year	2.72	0.02		
EUR	0.00	0.06	-0.19	0.73	GER	0.26	-0.02	NZGB 2 3/4 04/15/25	2.69	0.02	7 year	2.94	0.02		
GBP	0.25	0.30	0.51	1.08	GBP	1.00	-0.04	NZGB 4 1/2 04/15/27	2.79	0.02	10 year	3.16	0.01		
JPY	-0.07	-0.01	0.04	0.24	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.10	0.02	15 year	3.40	-0.00		
CAD	0.50	1.17	1.25	1.84	CAD	1.50	-0.04	NZGB 2 3/4 04/15/37	3.35	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 06:44

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.