

22 June 2017

Events Round-Up

US: Existing Home Sales (mn), May: 5.62 vs. 5.55 exp.

Good Morning

On a quiet day in a quiet week, currency, bond and equity movements have been small. Commodity currencies have underperformed a little as oil prices continue to get smashed, while GBP has been in focus after another MPC member outlines his views.

The BoE's chief economist Haldane noted in a speech that he considered a vote for a rate increase last week, indicating a lean towards the hawkish side of the debate. In the end he voted to leave rates unchanged, siding with the 5-3 majority. "The risks of tightening 'too early' have shrunk as growth and, to lesser extent, inflation have shown greater resilience than expected", he noted. The money market now shows a better than even chance of a rate hike before the end of the year, while 10-year UK gilts rose by 4bps to 1.03%, against a global trend of little change in rates.

GBP gained after the speech, recovering some of the losses seen after Governor Carney's more dovish assessment yesterday, before the market's focus turned back to Brexit. This saw GBP edge back down as the Queen outlined the government's legislative programme for the next two years. The government planned eight new laws to ease Britain's withdrawal from the European Union. For the day, GBP remains the best performing major currency, albeit the gain of 0.3% to 1.2670 is modest. NZD/GBP has edged back down towards 0.57.

Commodity currencies are all at the bottom end of the leaderboard, with oil prices down another 2-3%, taking WTI in the low USD 42s and Brent sub-45. As an indication of bearishness out there on the commodity, positive news on a drop in US gasoline inventories had an impact for all of about 30 minutes, before selling pressure intensified. Prices are now down 18% from late-May and if there is no near-term recovery, then there will be next to no chance of global inflation picking up. This complicates the monetary policy outlook for many central banks.

Against falling oil prices and other commodity prices, the

CAD, AUD and NZD are all lower against the USD, ranging from 0.1-0.3%, so not too much damage done. NZD is down the least of that lot, to 0.7230 ahead of the RBNZ's expected "no change" OCR Review at 9am this morning. After deciding not to try and talk the NZD down in the May MPS – the first MPS under Governor Wheeler's tenure that didn't reference some indication that the currency is too high or that a weaker NZD is desired – there is the possibility of the return of that sort of language. The NZ TWI has regained much of the losses seen prior to and following the May MPS, although the backdrop has been the terms of trade increasing to a likely record high, and that can't be ignored.

The NZD is down on most of the crosses, but has outperformed the AUD, taking NZD/AUD up a touch to 0.9575.

There's not much to say on the rates market, with US Treasuries largely following the oil market. A drift higher in oil prices helped the 10-year rate tick up to a high of 2.175%. This coincided with a rare positive economic data surprise, with a gain in US home sales, but the 3% dive in oil has seen rates fall down to 2.15%, near the level seen at the NZ close.

There was modest downside pressure to NZ rates, following the previous day's US move. The 2-year swap rate fell by 2bps to 2.21% while the 10-year rate fell by 1bp to 3.15%. There shouldn't be too much reaction to the RBNZ OCR review. But after the recent tick up in short end rates, the balance of risk lies towards a retreat in the 2-year rate back to below the 2.20% mark on a potentially dovish surprise. After the OCR Review, there isn't much else on the economic calendar for the rest of the week.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	RBNZ official cash rate (%)	Jun	1.75	1.75	09:00
NZ	Net migration	May		5780	10:45
EC	Consumer Confidence	Jun A	-3.0	-3.3	02:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day				Last	Net Day		
NZD	0.7233	-0.1	0.7206	0.7250	CHF	0.9727	-0.2	S&P 500	2,433	-0.1	16.5	Oil (Brent)	44.82	-2.7
AUD	0.7556	-0.3	0.7543	0.7575	SEK	8.750	-0.4	Dow	21,423	-0.2	20.2	Oil (WTI)	42.56	-2.2
EUR	1.1163	+0.3	1.1128	1.1166	NOK	8.535	-0.1	Nasdaq	6,233	+0.7	28.7	Gold	1243.4	+0.2
GBP	1.2669	+0.3	1.2589	1.2710	HKD	7.801	-0.0	Stoxx 50	3,554	-0.2	19.8	HRC steel	589.0	+0.0
JPY	111.31	-0.1	111.07	111.74	CNY	6.830	+0.0	FTSE	7,448	-0.3	19.6	CRB	167.4	-1.3
CAD	1.3311	+0.3			SGD	1.389	-0.0	DAX	12,774	-0.3	27.5	Wheat Chic.	479.5	-1.7
NZD/AUD	0.9573	+0.2			IDR	13,318	+0.2	CAC 40	5,274	-0.1	20.8	Sugar	13.06	-4.0
NZD/EUR	0.6479	-0.4			THB	33.99	-0.1	Nikkei	20,139	-0.5	25.4	Cotton	70.89	-0.6
NZD/GBP	0.5709	-0.4			KRW	1,144	+0.8	Shanghai	3,156	+0.5	8.6	Coffee	122.1	-2.0
NZD/JPY	80.51	-0.2			TWD	30.47	+0.2	ASX 200	5,666	-1.6	7.5	WM powder	3100.0	+1.6
NZ TWI	78.26	-0.1			PHP	50.37	+0.4	NZX 50	7,527	-0.8	11.0	Australian Futures		
Interest Rates										3 year bond			98.18	0.00
										10 year bond			97.57	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	1.29	1.54	2.12	USD	2.15	-0.00	NZGB 3 04/15/20	2.13	-0.00	1 year	2.03	-0.01	
AUD	1.50	1.72	1.84	2.68	AUD	2.39	-0.03	NZGB 6 05/15/21	2.22	-0.01	2 year	2.21	-0.02	
NZD	1.75	1.95	2.21	3.15	NZD	2.77	-0.02	NZGB 5 1/2 04/15/23	2.48	-0.00	5 year	2.70	-0.02	
EUR	0.00	0.06	-0.19	0.72	GER	0.27	0.00	NZGB 2 3/4 04/15/25	2.68	-0.01	7 year	2.93	-0.02	
GBP	0.25	0.29	0.57	1.11	GBP	1.03	0.04	NZGB 4 1/2 04/15/27	2.77	-0.02	10 year	3.15	-0.01	
JPY	-0.06	0.00	0.05	0.24	JPY	0.06	0.01	NZGB 3 1/2 04/14/33	3.08	-0.02	15 year	3.39	-0.00	
CAD	0.50	1.17	1.25	1.83	CAD	1.49	-0.01	NZGB 2 3/4 04/15/37	3.33	-0.01				

* 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 06:48

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

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