

22 May 2017

Events Round-Up

NZ: Net migration, Apr: 5780 vs. 6130 prev.

EC: Consumer confidence, May: -3.3 vs. -3.0 exp.

Good Morning

It was a fairly uneventful trading session on Friday, with little data to speak of. Trump remained in the headlines, with fresh news about his conversations with Russian officials and investigators identifying a current White House Official as a "person of interest" in their probe of Russian influence on the election. After the close, former FBI Director Comey agreed to testify before a Senate Committee.

The market tried its best to look through all the political news and focus on the fundamentals. This saw the S&P500 close up 0.7%. Over two sessions it has now recovered over the half of Wednesday's large sell-off. With an earnings season drawing to a close, year-on-year growth in EPS is a very healthy 14%. The VIX index closed down 18% at 12.

US 10-year Treasuries traded in a tight 2.22-2.26% range and ended the session up just half a basis point at 2.23%. There was little movement in the yield curve, with rates up less than a basis point right across the curve. The Fed's resident uber-dove Bullard (non-voter) gave a speech and spoke to reporters. He argued that "the FOMC's contemplated policy rate path is overly aggressive relative to actual incoming data on US macroeconomic performance." Of more interest were his comments on recent political events, which seemed apt. He said that "Even if there is political turmoil, it would just mean that Washington was paralysed in terms of making macroeconomic policy decisions. But that wouldn't be any different than divided government which we have had in the past".

While US equity and bond markets seemed to be able to ignore the background political news, the USD remained under pressure from the European open and carrying on right through to the US close. The USD majors index ended down 0.7%, unwinding all of the modest recovery the previous day, and falling to a fresh post-election low.

NOK was the best performer rising by 1.3%, supported by a 2% rise in crude oil prices. With WTI blasting up through USD 50 per barrel, prices closed at their highest level in four weeks. OPEC officials meet this week and they are widely expected to recommend a 9-month

extension to its previously agreed supply restrictions.

EUR has been a key beneficiary, as traders shift out of long USD positions and likely build up long EUR positions. The common currency rose by 0.9% to just above 1.12, its highest close since early October. With the EUR TWI up about 4% from its recent lows, it complicates the outlook for the ECB, just as expectations deepen for a subtle shift in policy tone at its next policy meeting early next month.

GBP regained the 1.30 handle and managed to keep it this time, closing up 0.8% to 1.3036. In a weekend interview, UK Brexit secretary Davis suggested that the UK would quit talks on leaving the EU unless the bloc drops its demands for a divorce payment as high as €100b. "The first crisis or argument is going to be over sequencing", he said.

The weak USD saw the NZD rise by 0.4% to close the week around 0.6925. Euro strength saw NZD/EUR closing below 0.62 for the first time since June at around 0.6180. NZD/AUD spent most of last week trading in a 1-cent range and it closed in the middle of the range around 0.9290.

With less angst over US politics and a lower VIX, the yen made the lowest gains of the majors against the USD. USD/JPY fell by 0.2% to 111.25, while NZD/JPY recovered to just over 77.

There is little to say about Friday's local rates market, with less than 1bp moves across both the bond and swap curves. Of note, the 2-year swap rate has remained fairly constant around 2.23% since the sharp fall post the RBNZ MPS. The first full rate hike is not priced in until June 2018, more than a year away. The RBNZ can take credit for deadening rate hike expectations, likely keeping short rates well anchored around current levels over coming weeks and months.

The light calendar ahead is likely to keep market conditions quiet and there isn't much to look forward to either over the rest of the week. Trump's foreign travel this week and US political developments are likely to hog the spotlight this week.

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Coming Up

	Period	Cons.	Prev.	NZT
JN Trade balance (¥b)	Apr	520	615	11:50
US Fed's Harker Speaks in Philadelphia				02:00
US Fed's Kashkari to Speak at Minneapolis Fed Conference				02:30

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	0.6926	+0.4	0.6884	0.6939	CHF	0.9729	-0.7				Oil (Brent)	53.61	+2.5
AUD	0.7459	+0.5	0.7422	0.7470	SEK	8.731	-0.9				Oil (WTI)	50.33	+2.0
EUR	1.1206	+0.9	1.1109	1.1212	NOK	8.375	-1.3				Gold	1253.6	+0.1
GBP	1.3036	+0.8	1.2945	1.3040	HKD	7.783	+0.0				HRC steel	613.0	+0.0
JPY	111.26	-0.2	111.05	111.70	CNY	6.885	-0.1				CRB	185.1	+1.4
CAD	1.3511	-0.7			SGD	1.386	-0.5				Wheat Chic.	448.5	+2.0
NZD/AUD	0.9285	-0.1			IDR	13,325	-0.2				Sugar	16.38	+2.2
NZD/EUR	0.6181	-0.5			THB	34.33	-0.5				Cotton	79.45	+0.3
NZD/GBP	0.5313	-0.3			KRW	1,127	+0.2				Coffee	132.1	+1.9
NZD/JPY	77.06	+0.2			TWD	30.19	-0.1				WM powder	3220.0	+0.6
NZ TWI	74.99	+0.0			PHP	49.81	-0.1				Australian Futures		
											3 year bond	98.23	0.00
											10 year bond	97.50	0.03
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		
USD	1.00	1.17	1.51	2.17	USD	2.23	0.01	NZGB 3 04/15/20	2.12	-0.00	1 year	2.03	-0.01
AUD	1.50	1.74	1.81	2.72	AUD	2.48	-0.03	NZGB 6 05/15/21	2.26	-0.00	2 year	2.23	+0.00
NZD	1.75	1.98	2.23	3.24	NZD	2.84	0.00	NZGB 5 1/2 04/15/23	2.53	-0.00	5 year	2.76	+0.00
EUR	0.00	0.06	-0.14	0.80	GER	0.37	0.03	NZGB 2 3/4 04/15/25	2.74	-0.00	7 year	3.00	+0.00
GBP	0.25	0.31	0.55	1.15	GBP	1.09	0.04	NZGB 4 1/2 04/15/27	2.84	0.00	10 year	3.24	+0.00
JPY	-0.05	-0.01	0.04	0.24	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.13	0.00	15 year	3.50	-0.00
CAD	0.50	1.17	1.01	1.75	CAD	1.48	0.03						

* 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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