

23 June 2017

## Events Round-Up

NZ: RBNZ official cash rate (%), Jun: 1.75 vs. 1.75 exp.

NZ: Net migration, May: 5900 vs. 5790 prev.

CA: Retail sales (m/m%), Apr: 0.8 vs. 0.3 exp.

EC: Consumer confidence, Jun: -1.3 vs. -3.0 exp.

## Good Morning

The low volatility environment continues, with only small changes in currencies, equities and bond markets. CAD, NZD and NOK are the only notable movers, supported by data and central banks.

CAD has been the best performer, with oil prices better bid after their weak run so far this week. It's too early to call an end to the bear market in oil, but prices are up about 0.5-1%. Canada retail sales rose by more than expected in April, taking year-to date growth to its highest in 26 years. Combined with the Governor and Deputy Governor of the BoC indicating a bias to tighten last week, OIS pricing has moved from a 40% to 60% chance of a rate hike as soon as next month. USD/CAD is down 0.7% to 1.3240, taking it close to where it started the week.

Norway's central bank removed its easing bias even as its short term model suggested a lower inflation outlook ahead, helping take USD/NOK down 0.4% to 8.50.

While Canada and Norway aren't high on our list of countries of interest to monitor, given most local importers and exporters have little exposure, the shift in policy bias is notable, as it adds colour to the prevailing global central bank mood. Last week, the Fed's lack of shift in policy guidance in response to weak data came as a hawkish surprise to some in the market, while the Bank of England has also been notable, with its split committee on whether it should be raising rates. Add to that the recent removal of an easing bias from the ECB. A shift in central bank policy is clearly underway, a reflection of the better global growth environment and a sense that economies no longer require the historically low policy rates that have been implemented for some time now.

Amidst other central banks moving towards less accommodative monetary policy stances, the RBA and RBNZ now stand out for their unchanged neutral policy stances. Yesterday's RBNZ OCR review came and went with no reaction in the rates market and a small lift in the NZD. The final paragraph remained unchanged, signalling that the RBNZ hadn't changed its outlook of monetary policy remaining accommodative "for a considerable period". As widely expected, there were only modest

tweaks to the language throughout the rest of the short press statement. Market pricing shows little chance of a rate hike this year, suggesting a period of OCR stability until at least February 2018. From that point onwards, the market prices in an increasing chance of a rate hike, but the curve is relatively flat, with the first full hike not priced until August 2018. But that view still goes against the RBNZ's own thinking of rate hikes being unnecessary until late 2019.

It was good to see the Bank is no longer trying to jawbone the NZD, a welcome development that was evident in the last MPS, and long may it continue. The Bank stuck strictly to the facts – that the recent rise in the TWI was partly explained by higher export prices and that a lower NZD would help rebalance growth towards the tradeables sector. The NZD was well-bid after the review, and the TWI currently sits about 0.6% higher since the announcement. NZD/AUD is up 0.8% to 0.9635, reflecting the AUD's underperformance. NZD pushed up from 0.7220 to around 0.7250 by the local close and has ticked higher overnight to its current level of 0.7265. We wouldn't read too much into the post-RBNZ move in the NZD, as the currency has hovered around its current level for the past seven trading days.

There is little to say about other currencies, which have shown only small movements against the USD. EUR is down about 0.2% to 1.1150, despite euro area consumer confidence rising by more than expected to a 16-year high.

UST yields have been tightly range-bound, given the lack of news and are currently down about 1bp across the curve, with the 10-year rate at 2.15%. As noted, NZ rates showed little reaction to the RBNZ statement. The 2-year and 10-year swap rates ended the day lower by less than 1bp to 2.205% and 3.145% respectively. Bank bill futures and OIS pricing were little changed. The week is expected to end on a quiet note, with PMI data and US new home sales data the only economic releases of note.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	NZ plans to sell \$150m 2037 bonds				14:05
GE	Markit manufacturing PMI	Jun P	59.0	59.5	19:30
GE	Markit services PMI	Jun P	55.4	55.4	19:30
EC	Markit manufacturing PMI	Jun P	56.8	57	20:00
EC	Markit services PMI	Jun P	56.1	56.3	20:00
US	Markit manufacturing PMI	Jun P	53.0	52.7	01:45
US	Markit services PMI	Jun P	53.5	53.6	01:45
US	New home sales ('000)	May	590	569	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	0.7268	+0.6	0.7246	0.7274	CHF	0.9722	-0.0	S&P 500	2,439	+0.2	17.0	Oil (Brent)	45.21	+0.9
AUD	0.7543	-0.1	0.7535	0.7561	SEK	8.755	+0.1	Dow	21,437	+0.1	20.6	Oil (WTI)	42.73	+0.5
EUR	1.1150	-0.2	1.1139	1.1178	NOK	8.497	-0.4	Nasdaq	6,249	+0.2	29.3	Gold	1246.3	+0.2
GBP	1.2673	+0.0	1.2654	1.2687	HKD	7.800	-0.0	Stoxx 50	3,556	+0.0	19.4	HRC steel	589.0	+0.0
JPY	111.32	-0.1	110.96	111.45	CNY	6.835	+0.1	FTSE	7,439	-0.1	18.8	CRB	166.5	-0.6
CAD	1.3242	-0.7			SGD	1.390	+0.1	DAX	12,794	+0.2	27.0	Wheat Chic.	475.3	-0.9
NZD/AUD	0.9635	+0.8			IDR	13,324	+0.0	CAC 40	5,282	+0.4	20.6	Sugar	12.84	-1.7
NZD/EUR	0.6518	+0.8			THB	33.98	-0.1	Nikkei	20,111	-0.1	23.8	Cotton	71.14	+0.4
NZD/GBP	0.5735	+0.6			KRW	1,141	-0.3	Shanghai	3,147	-0.3	8.8	Coffee	116.5	-4.5
NZD/JPY	80.91	+0.5			TWD	30.44	-0.1	ASX 200	5,706	+0.7	8.1	WM powder	3100.0	+1.6
NZ TWI	78.66	+0.6			PHP	50.37	-0.0	NZX 50	7,564	+0.5	10.9	<b>Australian Futures</b>		
												3 year bond	98.2	0.01
												10 year bond	97.58	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	1.29	1.53	2.11	USD	2.15	-0.01	NZGB 3 04/15/20	2.13	0.00	1 year	2.04	0.01	
AUD	1.50	1.72	1.83	2.66	AUD	2.38	-0.02	NZGB 6 05/15/21	2.22	0.00	2 year	2.21	-0.00	
NZD	1.75	1.96	2.21	3.15	NZD	2.76	-0.01	NZGB 5 1/2 04/15/23	2.48	0.00	5 year	2.69	-0.01	
EUR	0.00	0.06	-0.19	0.71	GER	0.25	-0.01	NZGB 2 3/4 04/15/25	2.67	-0.00	7 year	2.92	-0.01	
GBP	0.25	0.29	0.58	1.11	GBP	1.02	-0.02	NZGB 4 1/2 04/15/27	2.76	-0.01	10 year	3.15	-0.00	
JPY	-0.05	0.00	0.05	0.24	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	3.09	0.01	15 year	3.39	-0.00	
CAD	0.50	1.17	1.27	1.84	CAD	1.50	0.01	NZGB 2 3/4 04/15/37	3.33	0.00				

\* 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 06:49

Source: Bloomberg

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