

23 May 2017

Events Round-Up

JN, Trade balance (¥b), Apr: 482 vs. 521 exp.

Good Morning

The NZD tops the leaderboard, on a day with little economic data or fresh insights. US equities continue to recover from their hit mid last week, supported by defence stocks, as President Trump signed an arms deal with Saudi Arabia worth more than \$100b. The S&P500 index is up 0.5%, while the VIX index continues to fall from last week's spike and is now down to around 11.

The NZD has trended higher overnight and sits up 1% for the day, meeting some resistance just under the 0.70 mark. It has been a reasonable outperformance, with no other major currency making a gain of more than 0.4% against the soft-ish USD. Traders report some buying against the AUD, which sees NZD/AUD up through 0.9350. Our short-term NZD/USD fair value model estimate sits just above 0.74. We recently gave up hope of seeing the gap between spot and fair value closing soon, but the generally soft USD is now a supporting factor for the NZD. We think resistance between 0.70-71 is likely to prevail.

The USD remains out of favour, although the 0.2% fall for the day on the majors index is fairly modest. Much of that fall overnight reflects the boost EUR saw after Chancellor Merkel blamed a "too weak" euro for part of Germany's trade surplus. In a talk with students she said that "...the euro is too weak – that's because of ECB policy – and so German products are cheap in relative terms". EUR is up 0.3% to 1.1240, on track to close at an 8-month high.

The Fed's Kaplan (voter) said that he still sees three hikes this year, including the March increase. This adds to the Fed chorus of speakers of late who haven't budged on their outlook despite recent softer than expected US activity and inflation data. On inflation, Kaplan added that "recent readings are likely not indicative of a weakening trend." He seemed to give more weight to the falling unemployment rate, seeing inflation reaching "or exceeding" the 2% objective, as slack continues to be removed from the labour market.

These comments had little impact on the market. The risk-on mood has helped provide a floor for rates, but gains are in the order of just ½-1½ basis points across the Treasuries curve. The US 10-year rate currently sits at 2.25% and has traded in a very tight 2bps range.

GBP is the only major currency to fall against the USD, and trades down 0.3% at 1.30. Yesterday we reported on the weekend interview with UK Brexit secretary Davis, who 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. We should have also reported that opinion polls over the weekend showed a sharp narrowing in the lead of the Conservative party over Labour ahead of the 8 June election, with some showing the gap to just 9 points. Both of those factors led GBP to start the week on a soft footing.

In other news, oil prices continue to stretch higher, ahead of this week's OPEC meeting. WTI crude has risen to almost USD 51, while Brent Crude is close to USD 54. Iraq backs a proposal from Saudi Arabia and Russia to extend production restrictions for another nine months. This hasn't had much impact on CAD, which is flat around 1.35.

In a light news day we thought we'd deviate a little and report that Bitcoin broke up through the USD 2,000 mark for the first time, taking its month-to-date gain to 55%. The crypto-currency has been in high demand from China's citizens, while Japan recently allowed bitcoin to become a means of legal tender some six weeks ago. Since then, the move upward has been parabolic. But Bitcoin has actually underperformed relative to another crypto-currency Ripple, which is up 1000% in under a month. Bitcoin made up about 80% of market cap for all crypto-currencies a few months ago but its share has fallen below 50%. The value of crypto-currencies in circulation is currently less than 5% of USD in circulation, but clearly it is a growth area and it will be interesting to watch developments over coming years.

Yesterday, the local rates market saw some modest upward pressure on yields, a reflection of global forces, with the swap curve up around 2bps. The 2-year swap rate closed at 2.25% and it's hard to see much upward pressure from here over the near term, given the likely lack of monetary policy action from the RBNZ this year and the positive carry on offer to receive at that level. We see more upward pressure at the longer end of the curve, a reflection of the upside risk we see to UST rates, promoting a steepening bias. The 10-year swap rate closed yesterday at 3.26%.

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Coming Up

	Period	Cons.	Prev.	NZT
US Fed's Evans speaks in Shanghai				13:10
GE GDP, q/q%	1Q F	0.6	0.6	18:00
GE Markit manufacturing PMI	May P	58.0	58.2	19:30
GE Markit services PMI	May P	55.5	55.4	19:30
EC Markit manufacturing PMI	May P	56.5	56.7	20:00
EC Markit services PMI	May P	56.4	56.4	20:00
GE IFO expectations	May	105.4	105.2	20:00
US Markit manufacturing PMI	May P	53.1	52.8	01:45
US Markit services PMI	May P	53.3	53.1	01:45
US New home sales ('000)	Apr	610	621	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	% Year		Last	Net Day	
NZD	0.6989	+0.9	0.6934	0.6998	CHF	0.9731	+0.0		S&P 500	2,393	+0.5	16.6	Oil (Brent)	53.84	+0.4
AUD	0.7475	+0.2	0.7438	0.7489	SEK	8.696	-0.4		Dow	20,901	+0.5	19.4	Oil (WTI)	50.75	+0.8
EUR	1.1238	+0.3	1.1162	1.1264	NOK	8.350	-0.3		Nasdaq	6,128	+0.7	28.5	Gold	1261.3	+0.6
GBP	1.3000	-0.3	1.2966	1.3043	HKD	7.785	+0.0		Stoxx 50	3,577	-0.3	20.7	HRC steel	613.0	+0.0
JPY	111.20	-0.1	110.93	111.53	CNY	6.886	+0.0		FTSE	7,496	+0.3	21.8	CRB	186.0	+0.5
CAD	1.3505	-0.0			SGD	1.386	+0.0		DAX	12,619	-0.2	27.3	Wheat Chic.	450.8	+0.5
NZD/AUD	0.9350	+0.6			IDR	13,302	-0.2		CAC 40	5,323	+0.4	22.3	Sugar	16.51	+0.8
NZD/EUR	0.6219	+0.6			THB	34.30	-0.1		Nikkei	19,678	+0.4	18.2	Cotton	78.39	-1.3
NZD/GBP	0.5376	+1.2			KRW	1,119	-0.7		Shanghai	3,076	-0.5	8.2	Coffee	130.6	-1.1
NZD/JPY	77.72	+0.9			TWD	30.04	-0.5		ASX 200	5,771	+0.8	8.5	WM powder	3200.0	-0.6
NZ TWI	75.66	+0.9			PHP	49.75	-0.1		NZX 50	7,409	+0.2	7.3	Australian Futures		
Interest Rates					NZ Government Bonds				NZ Swap Yields						
Rates		Swap Yields			Benchmark 10 Yr Bonds			Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	1.00	1.19	1.52	2.19	USD	2.25	0.02	NZGB 3 04/15/20	2.12	0.00	1 year	2.04	+0.01		
AUD	1.50	1.74	1.80	2.73	AUD	2.49	0.01	NZGB 6 05/15/21	2.26	0.00	2 year	2.25	+0.02		
NZD	1.75	1.98	2.25	3.26	NZD	2.86	0.02	NZGB 5 1/2 04/15/23	2.54	0.00	5 year	2.78	+0.02		
EUR	0.00	0.06	-0.13	0.83	GER	0.40	0.03	NZGB 2 3/4 04/15/25	2.76	0.01	7 year	3.03	+0.02		
GBP	0.25	0.30	0.56	1.16	GBP	1.09	-0.01	NZGB 4 1/2 04/15/27	2.86	0.02	10 year	3.26	+0.02		
JPY	-0.05	-0.01	0.04	0.24	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.15	0.02	15 year	3.53	+0.02		
CAD	0.50	1.17	1.01	1.73	CAD	1.48	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 06:37

Source: Bloomberg

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