

24 July 2017

Events Round-Up

NZ: Net migration, Jun: 6350 vs 5900 prev.

AU: RBA's Debelle speech

CA: CPI (y/y%), Jun: 1.0 vs 1.1 exp.

Good Morning

It was more of the same for currencies and bonds on Friday, the US dollar continuing to push lower alongside US Treasury yields. Equities were mixed, while oil prices fell.

Latest news out of Washington helping maintain the bearish US dollar tone was the resignation of White House press secretary Sean Spicer, after telling President Trump he vehemently disagreed with his appointment of Anthony Scaramucci, a New York financier, as his new communications director. The long-anticipated resignation rattled an administration already reeling from the most trying two-week stretch of Mr. Trump's presidency as the president's health care effort foundered in the Senate last week. There looks to be no respite this week with his son Donald Trump Jr. and son-in-law, Jared Kushner, due to testify before Congress on questions about their contacts with Russia. It all threatens to keep the USD on the back foot.

The DXY US dollar index fell 0.5% on Friday, taking it down nearly 1.4% for the week. USD/JPY fell 0.7% to around 111.10.

After a strong run higher, AUD's strength was checked on Friday as RBA Deputy Governor Debelle suggested that a rising AUD is not welcome, a lower exchange rate would be more helpful, and a stronger currency complicates the economy's adjustment. AUD/USD strength was contained dipping 0.6% on the day, to close at 0.7916, but still up just over 1% for the week. We wonder how long the containment of strength can last, especially if the USD continues to drift lower. This week Wednesday will be important for the AUD's progress with Governor Lowe's speech in Sydney on 'The Labour Market and Monetary Policy' along with Q2 CPI data due.

Despite AUD strength checked, the NZD continued to push north through Friday night aided by high risk appetite (with the VIX 'fear index' pushing record lows) and Fin Min Joyce's comments on Friday that he was unperturbed by the currency's strength. NZD/USD pushed up to its highest level since last September, closing up 0.8% on the day at 0.7454.

This combo saw NZD/AUD bungee back strongly in Friday's session to close the week at 0.9416 following downward pressure over recent weeks that saw the pair dip below 0.9250 mid-last week.

NZD net longs have extended out to record levels, consistent with the recent push higher, although that creates some possible downside vulnerability should we see some disappointing NZ data. But with next to nothing on the local calendar this week, the NZD will likely take direction from offshore.

US equity markets closed marginally lower on Friday. S&P500 was down less than 0.1%, but up 0.5% for the week. However, the latest leg higher in the EUR dented European equities with the Euro Stoxx 50 down 1.4% on the day and 2.1% for the week.

EUR remains a beneficiary of USD weakness, but is ably assisted by positive economic news and the prospect of the ECB starting discussions on winding back its QE program. On the later, a Reuters ECB source story on Friday noted 'all signs are pointing to October' as the most likely date to decide on the future of the ECB's asset program, with little data before the September meeting and 'December just too far out'. Regardless of the precise timing, the theme helped EUR/USD add to its recent gains, pushing up 0.3% on Friday to close at just above 1.1660 and up nearly 1.7% for the week. This week's data is likely to continue support for the EUR, starting with Monday's PMI data. The ECB's Smets (Director General of Economics) speaks on Tuesday on "The ECB's Monetary Policy since 2014", providing an opportunity to talk on QE, negative rates and the economy.

US Treasury yields continued to leak lower on Friday, with 2-year yields down about 1bp and 10-year yields down around 2bps to close the week at 1.3% and 2.2% respectively. This was consistent with the theme elsewhere with 10-year German Bunds down 2bps and 10-year UK Gilts down 3bps.

The FOMC meets this week and is almost certain to leave rates on hold. The decision is due Thursday morning NZT. US Q2 GDP data is due Friday and is expected to reveal 2.5% growth after 1.4% in Q1.

Yields were lower amid a dip in oil prices, which fell around 2.5% on Friday after a report OPEC crude supply will be the highest since December. After edging above \$US50/bbl on Thursday, Brent crude peeled back to around \$US48. The OPEC/Non-OPEC Joint Monitoring Committee meets today.

Local yields were generally lower with a flattening bias on Friday, following recent offshore trends. NZ 2-year swap closed down 2bps to 2.22%, while 5 and 10 year swap finished down 4bps to 2.76% and 3.27% respectively. We see nothing on the local calendar to materially disturb pricing this week, so it looks like any direction would stem from offshore.

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Coming Up

	Period	Cons.	Prev.	NZT
GE Markit Manufacturing PMI	Jul P	59.2	59.6	19:30
GE Markit Services PMI	Jul P	54.3	54	19:30
EC Markit Manufacturing PMI	Jul P	57.2	57.4	20:00
EC Markit Services PMI	Jul P	55.4	55.4	20:00
US Markit Manufacturing PMI	Jul P	52.2	52	01:45
US Markit Services PMI	Jul P	54	54.2	01:45
US Existing Home Sales	Jun	5.57	5.62	02:00
EC ECB's Smets Speaks in Munich				04:00

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	0.7445	-0.1	0.7394	0.7459	CHF	0.9457	+0.2			S&P 500	2,473	-0.0	13.7	Oil (Brent)	48.06	-2.5																																																																																																																																																																													
AUD	0.7917	+0.0	0.7875	0.7959	SEK	8.242	+0.1			Dow	21,580	-0.1	16.2	Oil (WTI)	45.77	-2.5																																																																																																																																																																													
EUR	1.1659	-0.0	1.1619	1.1683	NOK	8.016	-0.2			Nasdaq	6,388	-0.0	25.2	Gold	1254.9	+0.8																																																																																																																																																																													
GBP	1.3003	+0.0	1.2954	1.3020	HKD	7.809	-0.0			Stoxx 50	3,452	-1.4	16.1	HRC steel	617.0	+0.0																																																																																																																																																																													
JPY	111.06	-0.1	111.01	112.08	CNY	6.767	+0.1			FTSE	7,453	-0.5	10.7	CRB	176.7	-1.0																																																																																																																																																																													
CAD	1.2539	+0.0			SGD	1.363	+0.0			DAX	12,240	-1.7	20.6	Wheat Chic.	522.5	-1.3																																																																																																																																																																													
NZD/AUD	0.9404	+1.3			IDR	13,313	-0.2			CAC 40	5,118	-0.7	16.8	Sugar	14.40	-0.1																																																																																																																																																																													
NZD/EUR	0.6386	+0.5			THB	33.44	+0.0			Nikkei	20,100	-0.2	20.9	Cotton	69.14	-0.6																																																																																																																																																																													
NZD/GBP	0.5726	-0.1			KRW	1,118	-0.7			Shanghai	3,238	-0.2	7.5	Coffee	136.6	+1.1																																																																																																																																																																													
NZD/JPY	82.68	-0.2			TWD	30.42	-0.1			ASX 200	5,723	-0.7	4.1	WM powder	3190.0	+0.6																																																																																																																																																																													
NZ TWI	78.82	+0.8			PHP	50.72	-0.3			NZX 50	7,671	-0.0	6.2	Australian Futures																																																																																																																																																																															
<table border="1"> <thead> <tr> <th colspan="6">Interest Rates</th> <th colspan="4">NZ Government Bonds</th> <th colspan="3">NZ Swap Yields</th> </tr> <tr> <th colspan="2">Rates</th> <th colspan="3">Swap Yields</th> <th colspan="2">Benchmark 10 Yr Bonds</th> <th colspan="4"></th> <th colspan="3"></th> </tr> <tr> <th></th> <th>Cash</th> <th>3Mth</th> <th>2 Yr</th> <th>10 Yr</th> <th></th> <th>Last</th> <th>Net Day</th> <th colspan="4"></th> <th colspan="3"></th> </tr> </thead> <tbody> <tr> <td>USD</td> <td>1.25</td> <td>1.31</td> <td>1.59</td> <td>2.21</td> <td>USD</td> <td>2.24</td> <td>-0.02</td> <td colspan="4">NZGB 3 04/15/20</td> <td colspan="2">2.13</td> <td colspan="2">-0.02</td> <td>1 year</td> <td>2.04</td> <td>-0.01</td> </tr> <tr> <td>AUD</td> <td>1.50</td> <td>1.70</td> <td>1.93</td> <td>2.88</td> <td>AUD</td> <td>2.70</td> <td>-0.04</td> <td colspan="4">NZGB 6 05/15/21</td> <td colspan="2">2.27</td> <td colspan="2">-0.04</td> <td>2 year</td> <td>2.22</td> <td>-0.02</td> </tr> <tr> <td>NZD</td> <td>1.75</td> <td>1.94</td> <td>2.22</td> <td>3.27</td> <td>NZD</td> <td>2.93</td> <td>-0.03</td> <td colspan="4">NZGB 5 1/2 04/15/23</td> <td colspan="2">2.57</td> <td colspan="2">-0.04</td> <td>5 year</td> <td>2.76</td> <td>-0.04</td> </tr> <tr> <td>EUR</td> <td>0.00</td> <td>0.06</td> <td>-0.16</td> <td>0.90</td> <td>GER</td> <td>0.51</td> <td>-0.02</td> <td colspan="4">NZGB 2 3/4 04/15/25</td> <td colspan="2">2.80</td> <td colspan="2">-0.03</td> <td>7 year</td> <td>3.02</td> <td>-0.04</td> </tr> <tr> <td>GBP</td> <td>0.25</td> <td>0.29</td> <td>0.60</td> <td>1.23</td> <td>GBP</td> <td>1.18</td> <td>-0.03</td> <td colspan="4">NZGB 4 1/2 04/15/27</td> <td colspan="2">2.93</td> <td colspan="2">-0.03</td> <td>10 year</td> <td>3.27</td> <td>-0.04</td> </tr> <tr> <td>JPY</td> <td>-0.05</td> <td>-0.01</td> <td>0.04</td> <td>0.25</td> <td>JPY</td> <td>0.07</td> <td>-0.01</td> <td colspan="4">NZGB 3 1/2 04/14/33</td> <td colspan="2">3.27</td> <td colspan="2">-0.02</td> <td>15 year</td> <td>3.52</td> <td>-0.04</td> </tr> <tr> <td>CAD</td> <td>0.75</td> <td>1.17</td> <td>1.55</td> <td>2.17</td> <td>CAD</td> <td>1.89</td> <td>0.00</td> <td colspan="4">NZGB 2 3/4 04/15/37</td> <td colspan="2">3.49</td> <td colspan="2">-0.02</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>															Interest Rates						NZ Government Bonds				NZ Swap Yields			Rates		Swap Yields			Benchmark 10 Yr Bonds										Cash	3Mth	2 Yr	10 Yr		Last	Net Day								USD	1.25	1.31	1.59	2.21	USD	2.24	-0.02	NZGB 3 04/15/20				2.13		-0.02		1 year	2.04	-0.01	AUD	1.50	1.70	1.93	2.88	AUD	2.70	-0.04	NZGB 6 05/15/21				2.27		-0.04		2 year	2.22	-0.02	NZD	1.75	1.94	2.22	3.27	NZD	2.93	-0.03	NZGB 5 1/2 04/15/23				2.57		-0.04		5 year	2.76	-0.04	EUR	0.00	0.06	-0.16	0.90	GER	0.51	-0.02	NZGB 2 3/4 04/15/25				2.80		-0.03		7 year	3.02	-0.04	GBP	0.25	0.29	0.60	1.23	GBP	1.18	-0.03	NZGB 4 1/2 04/15/27				2.93		-0.03		10 year	3.27	-0.04	JPY	-0.05	-0.01	0.04	0.25	JPY	0.07	-0.01	NZGB 3 1/2 04/14/33				3.27		-0.02		15 year	3.52	-0.04	CAD	0.75	1.17	1.55	2.17	CAD	1.89	0.00	NZGB 2 3/4 04/15/37				3.49		-0.02				
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* 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 07:00

Source: Bloomberg

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