

24 May 2017

Events Round-Up

GE: GDP, q/q%, Q1F: 0.6 vs 0.6 exp.

GE: Markit manufacturing PMI, May P: 59.4 vs 58.0 exp.

GE: Markit services PMI, May P: 55.2 vs 55.5 exp.

EC: Markit manufacturing PMI, May P: 57.0 vs 56.5 exp.

EC: Markit services PMI, May P: 56.2 vs 56.4 exp.

GE: IFO expectations, May: 106.5 vs 105.4 exp.

US: Markit manufacturing PMI, May P: 52.5 vs 53.0 exp.

US: Markit services PMI, May P: 54.0 vs 53.3 exp.

US: New home sales ('000), Apr: 569 vs 610 exp.

Good Morning

Markets moves were generally within tight ranges overnight, with a modestly pro-risk undercurrent. US equities are currently up smalls (+0.2%), following mostly positive closes across Europe. US bond yields have pushed a bit higher while oil prices nudge upwards. The USD is firmer.

More of President Trump's Budget proposals have been released. The plan looks for US\$3.6T spending cuts over the coming 10 years, many related to social safety nets. It also plans to sell half of the US Strategic Oil Reserve, as part of a plan to get the Budget back in balance within a decade. There has been little detail on potential tax changes. As expected, markets have been little moved. In the end it will be difficult to get through Congress; more gridlock ahead.

Germany's Finance Minister, Wolfgang Schaeuble, said the Euro is too low for Germany – essentially reiterating recent sentiment from Chancellor Angela Merkel. At about the same, the ECB's Coeure was suggesting no need to change guidance on negative rates suggesting that any rate hikes will be well beyond the timing of asset purchases (think late 2018). Meanwhile, there was another dose of strong data from Germany (PMIs and IFO business sentiment) and Europe as a whole (PMIs). All this caused some volatility in the EUR, with the signal currency ultimately retreating after its recent strong run higher with the central bank comments seemingly holding sway. After pushing up to a 6-month high just shy of 1.1270, EUR/USD has pulled back to sit around 1.1180 currently, to be down around 0.5%. Ears out for Draghi comments tonight.

The US dollar index is up 0.4%, partly on the back of the

EUR retreat. A mild risk-on market tone also benefitted the USD, with the USD/JPY pushing up around 0.4% to around 111.80.

Market reaction to yesterday's bombing in Manchester has been muted. GBP was not spooked, as the news broke, but has lost some ground against the stronger USD. While GBP/USD currently sits around 1.2970, down 0.3%, GBP is marginally higher against the EUR from this time yesterday.

The NZD tops the currency leaderboard for a second day running, on no particular news. It feels like catch up after underperforming over the past several weeks, although improving risk appetite and higher oil prices are helpful. The NZD/USD approached 0.7050 overnight, before easing back to opening this morning just above 0.7000 (up around 0.1%).

The NZD has positive momentum as it eyes a likely firm first milk price forecast from Fonterra for the 2017/18 season of at least \$6 (possibly out today, or maybe tomorrow) and tomorrow's Government Budget revealed a healthy set of fiscal accounts. A higher-than-market estimate (as we anticipate) for April's NZ trade surplus in this morning's data would only add to the positivity, although month trade data seldom causes market movement. We see initial resistance around the 0.7050 mark.

NZD/AUD has broken higher out of the circa one cent range that has prevailed since the dovish RBNZ MPS nearly two weeks ago. The push higher fell shy of 0.9400 overnight. The NZD/AUD opens today around 0.9370.

The NZ TWI has tracked circa 1.5% higher over the past two days. This is nothing to spook the RBNZ though, at around 76.0 it is simply around the level that the central bank expected through the second quarter.

Oil prices initially dipped on the news of potential US Strategic Oil Reserve selling over the next 10 years but bounced back as market focus quickly returned to tomorrow's meeting of major oil producers where production cuts are expected to be extended for nine months, out to Q1 2018. Brent crude is up 0.5% at around US\$54.10/bbl.

Solid economic data, adding to positive risk sentiment and higher oil prices have seen global yields push higher. The US 10 year Treasury yield is up about 3bps to nearly 2.28%.

Fed speakers over the past 24 hours haven't given a clear-cut signal for a June Fed hike, but the lack of the opposite seems enough for the market to largely price in a hike next month. Pricing for a June Fed hike has nudged back above 80%. Little extra information is anticipated from the Fed Minutes overnight, with focus on the numerous upcoming Fed speakers to gain any latest insight (including Harker at 9am this morning NZT).

NZ yields edged a little lower yesterday with swap yields down about 2bps across the curve. We would expect some upward bias with steepening pressure today, given offshore moves.

We are not expecting to hear anything from RBNZ

Governor Wheeler's speech in Hamilton today, given it is not public.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Trade Balance NZD	Apr	266.5	332	10:45
AU Construction Work Done	1Q	-0.5	-0.2	13:30
GE GfK Consumer Confidence	Jun	10.2	10.2	18:00
EC ECB President Draghi speaks in Madrid				00:45
CA Bank of Canada Rate Decision		0.5	0.5	02:00
US Existing Home Sales (m)	Apr	5.65	5.71	02:00
US FOMC Meeting Minutes				06:00

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	0.7004	+0.1	0.7006	0.7047	CHF	0.9758	+0.2	S&P 500	2,398	+0.2	17.1	Oil (Brent)	54.12	+0.5
AUD	0.7476	-0.0	0.7479	0.7517	SEK	8.709	+0.2	Dow	20,932	+0.2	19.7	Oil (WTI)	51.45	+0.6
EUR	1.1182	-0.5	1.1177	1.1268	NOK	8.376	+0.4	Nasdaq	6,133	-0.0	28.7	Gold	1250.9	-0.8
GBP	1.2967	-0.3	1.2953	1.3034	HKD	7.788	+0.0	Stoxx 50	3,595	+0.5	22.6	HRC steel	613.0	+0.0
JPY	111.79	+0.4	110.91	111.79	CNY	6.885	-0.0	FTSE	7,485	-0.1	22.0	CRB	185.1	-0.5
CAD	1.3517	+0.1			SGD	1.390	+0.3	DAX	12,659	+0.3	28.6	Wheat Chic.	444.0	-0.8
NZD/AUD	0.9369	+0.1			IDR	13,299	-0.0	CAC 40	5,348	+0.9	23.7	Sugar	15.87	-3.9
NZD/EUR	0.6264	+0.6			THB	34.43	+0.4	Nikkei	19,613	-0.3	18.9	Cotton	77.22	-1.6
NZD/GBP	0.5401	+0.4			KRW	1,124	+0.5	Shanghai	3,062	-0.4	8.5	Coffee	130.3	-0.3
NZD/JPY	78.30	+0.6			TWD	30.16	+0.4	ASX 200	5,760	-0.2	8.8	WM powder	3175.0	-0.8
NZ TWI	75.97	+0.0			PHP	49.82	+0.1	NZX50	7,385	-0.3	7.5			
Interest Rates					NZ Government Bonds				Australian Futures					
Rates		Swap Yields		Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last		Last					
USD	1.00	1.19	1.54	2.22	USD	2.28	0.03	NZGB 3 04/15/20	2.10	0.00	3 year bond	98.22	-0.04	
AUD	1.50	1.74	1.80	2.74	AUD	2.44	-0.04	NZGB 6 05/15/21	2.24	0.00	10 year bond	97.48	0.00	
NZD	1.75	1.97	2.24	3.24	NZD	2.86	0.00	NZGB 5 1/2 04/15/23	2.51	0.00	1 year	2.04	+0.00	
EUR	0.00	0.06	-0.13	0.84	GER	0.41	0.01	NZGB 2 3/4 04/15/25	2.73	0.00	2 year	2.24	+0.00	
GBP	0.25	0.30	0.55	1.16	GBP	1.08	-0.01	NZGB 4 1/2 04/15/27	2.83	0.00	5 year	2.76	+0.00	
JPY	-0.06	-0.01	0.04	0.24	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.12	0.00	7 year	3.00	+0.00	
CAD	0.50	1.17	1.02	1.77	CAD	1.50	0.03				10 year	3.24	+0.00	
											15 year	3.51	+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 07:47

Source: Bloomberg

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