

25 August 2017

Events Round-Up

NZ: Trade balance (\$m), Jul: 85 vs. -200 exp.

UK: GDP (q/q%), Q2: 0.3 vs. 0.3 exp.

US: Existing home sales (m), Jul: 5.44 vs. 5.55 exp.

Good Morning

Another quiet summer holiday trading session sees little change in asset prices. The NZD continues to underperform, albeit changes are fairly microscopic.

There has been little tradeable news reported, a light economic calendar and the market has been focused on the upcoming Jackson Hole symposium. Traders are sitting on their hands and price movements have been minimal. In economic news, the second estimate of UK GDP for Q2 was unchanged at 0.3%. US existing home sales were weaker than expected, falling to an 11-month low, but on a more positive note, weekly jobless claims figures remained near a four-decade low and the weekly consumer comfort index rose to a 16-year high. In NZ, trade data showed a rare and unexpected surplus for July, driven by stronger exports, but none of these releases had any notable market reaction.

There have been a few headlines on the US debt ceiling debacle. Trump blames Republican leaders for the "mess". On this tweet he has a good point, as the debt ceiling could have been added to a popular veterans' bill, but Conservatives in the house demanded that steep spending cuts accompany the bill. Ratings agency Moody's Investor Services said that a missed debt payment would have "negative rating implications". The Bipartisan Policy Centre estimates that the government could run out of cash on 2 October to pay for an obligation to the Military Retirement Fund. But the more important date is closer to mid-October when debt obligations are due. The interest rate on Treasury bills maturing 12 October rose 5bps and are up 10bps over two days, reflecting the unthinkable possibility of a missed payment.

The NZD sits at 0.7215 this morning, about 10pips lower from the same time 24 hours ago. There was another probe below the 0.72 mark, 0.7192 being the low, but that didn't last for long. The currency is down on most of the key crosses, but movements have been less than 0.2%. NZD/AUD sits at 0.9130, NZD/EUR at 0.6110 and NZD/GBP at 0.5635.

JPY has been the biggest mover, but as we've seen over past two weeks, USD/JPY continues to find support in the high 108s. USD/JPY is up 0.3% for the day to 109.40 and NZD/JPY is up 0.2% to 78.95.

There's little to add on the bond market. The US 10-year rate has drifted up just over a basis point since the NZ close to sit at 2.19%, still around the lower end of its trading range of recent months, as the market keenly anticipates some guidance from Yellen and Draghi tonight. The Jackson Hole symposium has previously resulted in market moving speeches by Central Bank heads, that isn't always the case. Sources suggest that the ECB's Draghi's speech will steer clear of any major policy announcement, while Fed Chair Yellen's speech will be focused on financial stability.

Last week the Fed's Dudley commented that rising asset prices suggested the Fed likely needed to do more to tighten financial conditions. If Yellen echoes these thoughts then that could help lift US rates and support the USD.

Movement in the NZ rates curve has remained minimal all week. The 2-year swap rate was flat at 2.18%. The closing level hasn't budged more than 1bp over the past week and a bit. The 10-year swap level fell by 2bps to 3.14%, remaining tightly range-bound for the past few weeks. Reporting that nothing happened is becoming more tedious by the day. Let's hope for a bit more volatility ahead.

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Coming Up

	Period	Cons.	Prev.	NZT	
JN	CPI (y/y%)	Jul	0.4	0.4	11:30
JN	CPI ex fresh food, energy (y/y%)	Jul	0.1	0.0	11:30
GE	IFO expectations	Aug	106.8	107.3	20:00
US	Durable goods orders	Jul	-6.0	6.4	00:30
US	Durables ex transportation	Jul	0.4	0.1	00:30
US	Yellen speaks at Fed conference in Jackson Hole				02:00
EC	Draghi speaks at Fed conference in Jackson Hole				07:00

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	0.7217	-0.1	0.7192	0.7228	CHF	0.9644	-0.1	S&P 500	2,441	-0.1	12.2	Oil (Brent)	52.05	-1.0
AUD	0.7905	+0.0	0.7867	0.7910	SEK	8.062	+0.0	Dow	21,800	-0.1	18.0	Oil (WTI)	47.46	-1.9
EUR	1.1807	+0.0	1.1784	1.1815	NOK	7.837	-0.4	Nasdaq	6,272	-0.1	20.2	Gold	1286.5	-0.2
GBP	1.2806	+0.0	1.2774	1.2837	HKD	7.824	-0.0	Stoxx 50	3,445	+0.2	14.5	HRC steel	621.0	+0.0
JPY	109.38	+0.3	109.07	109.46	CNY	6.662	+0.0	FTSE	7,407	+0.3	8.4	CRB	177.8	+0.1
CAD	1.2528	-0.2			SGD	1.361	+0.0	DAX	12,181	+0.1	14.7	Wheat Chic.	434.3	+1.0
NZD/AUD	0.9130	-0.1			IDR	13,346	-0.1	CAC 40	5,113	-0.1	15.3	Sugar	14.02	+2.6
NZD/EUR	0.6112	-0.1			THB	33.33	+0.0	Nikkei	19,354	-0.4	16.9	Cotton	70.17	+0.7
NZD/GBP	0.5636	-0.2			KRW	1,128	-0.4	Shanghai	3,272	-0.5	6.6	Coffee	127.9	-0.6
NZD/JPY	78.94	+0.2			TWD	30.26	-0.1	ASX 200	5,745	+0.1	3.7	WM powder	3240.0	+0.0
NZ TWI	76.15	-0.1			PHP	51.03	-0.3	NZX 50	7,868	-0.1	5.9	Australian Futures		
												3 year bond	98.02	-0.01
												10 year bond	97.36	0.00
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	1.32	1.57	2.13	USD	2.19	0.02	NZGB 3 04/15/20	2.04	-0.01	1 year	2.02	0.00	
AUD	1.50	1.72	1.93	2.80	AUD	2.63	-0.04	NZGB 6 05/15/21	2.19	-0.02	2 year	2.18	0.00	
NZD	1.75	1.95	2.18	3.14	NZD	2.92	0.00	NZGB 5 1/2 04/15/23	2.49	-0.02	5 year	2.65	-0.01	
EUR	0.00	0.06	-0.18	0.82	GER	0.38	-0.00	NZGB 2 3/4 04/15/25	2.76	-0.01	7 year	2.89	-0.02	
GBP	0.25	0.28	0.56	1.14	GBP	1.05	-0.01	NZGB 4 1/2 04/15/27	2.92	-0.00	10 year	3.14	-0.02	
JPY	-0.05	-0.03	0.02	0.21	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	3.30	0.00	15 year	3.40	-0.02	
CAD	0.75	1.17	1.59	2.15	CAD	1.89	0.01	NZGB 2 3/4 04/15/37	3.56	0.01				

* 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 06:40

Source: Bloomberg

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