

25 May 2017

Events Round-Up

NZ: Trade Balance NZD m, Apr: 578 vs 267 exp.
AU: Construction Work Done, 1Q: -0.7vs -0.5 exp.
GE: GfK Consumer Confidence, Jun: 10.4 vs 10.2 exp.
CA: Bank of Canada Rate Decision: 0.5 vs 0.5 exp.
US: Existing Home Sales (m), Apr: 5.57 vs 5.65 exp.
US: FOMC Meeting Minutes

Good Morning

Central bank comments generated the most action overnight. But generally subdued trading conditions prevailed through most of the night with limited movement across many markets ahead of this morning's Fed minutes.

The minutes from the early May Fed meeting did cause some movement as they generally supported a June rate hike view with 'most participants judged that if economic information came in about in line with their expectations it would soon be appropriate for the committee to take another step in removing some policy accommodation'. So a June hike remains probable, although not certain.

In addition, Fed staff presented a plan to gradually shrink the Fed's balance sheet by increasing run-off limits every three months over a set period of time until fully phased in. Nearly all policy makers expressed a favourable view on this, agreed more details on the plan should be announced soon, and it would be appropriate to start the process this year. The market appears to have been looking for more detail on the latter.

The market reaction has seen a marginally weaker US dollar, slightly lower US bond yields and an edge higher in US equities. The DXY dollar index is down around 0.3% post-minutes, after resembling a flat line most of the night.

Earlier in the night ECB President Draghi played down any unwarranted side effects from negative rates and said that 'there is no reason to deviate from the indications we have been consistently providing in the introductory statement to our press conference'. Translation: the ECB will be cautious in shifting its language. EUR/USD had pushed as low as 1.1170 at one point before finding support, and then spiking up toward 1.1220 post-Fed minutes. The pair currently sits around 1.1210.

GBP continues to mildly underperform in the aftermath of the Manchester bombing. The UK has lifted its terrorism threat to critical and deployed army personnel to assist police to provide safety. GBP/USD had dipped to around 1.2930 before lifting on a weaker USD to currently sit around 1.2960.

NZD/USD is again testing the top of the 0.6850 to 0.7050 following the Fed minutes. The pair currently sits just under the top of the range, up 0.5% and near the top of the currency leaderboard.

Yesterday's positive NZ April trade figures and higher milk price forecasts from Fonterra set a positive tone, but it was curtailed as Moody's downgraded China's sovereign rating by one notch from Aa3 to A1 (moving in line with Fitch but one notch below S&P). In addition, Moody's changed China's rating outlook to stable from negative.

China's Finance Ministry said that Moody's is overstating economic difficulties and understating China's reform capability. After initially sliding on the China downgrade toward 0.7440, AUD/USD recovered overnight and pushed on post the Fed minutes. AUD/USD opens this morning just under 0.7500. NZD/AUD hovers around 0.9400, up 0.2%.

The BoC held its cash rate steady at 0.5% but in describing the current degree of stimulus as appropriate the Bank added 'at present'. This sent CAD to the top of the currency leaderboard. USD/CAD fell sharply to around 1.3440 from near 1.3530 just before the announcement. It has extended down to 1.3420, post-Fed.

Oil prices have been relatively subdued, down around 0.4%, ahead of today's meeting between OPEC and other major oil producers to discuss extension of existing production curbs. At US\$53.90, Brent crude sits at a similar level to this time yesterday.

US Treasury yields were little changed ahead of the Fed minutes, trading in a tight range. Post-Fed yields have fallen around 2 to 3 basis points across the curve. The US 10-year Treasury yield is down a couple of basis points to just under 2.26%.

The local swap curve generally rose and steepened yesterday, echoing moves in the previous offshore session. The NZ 2-year swap yield continues to have little pulse, anchored by a dovish RBNZ, closing little changed yesterday at 2.235%. Meanwhile, NZ 5-year swap edged 2bp higher to just under 2.78% and 10-year swap pushed

up 3bp to around 3.27%. Some downward bias looks in store today, given the drift lower in offshore yields after the Fed minutes.

The UK's Q1 GDP and oil-producers meeting are the most notable events on today's sparse international calendar. Locally, attention, at least politically, will be on NZ's Budget (due 2pm). But we are not expecting material market movement as a result of today's Budget, although we do anticipate policies to represent a clear net fiscal stimulus (which the RBNZ would not have been able to include in its May Monetary Policy Statement, it's worth noting). Even so, there will still likely be increasing core operating surpluses in the projections, to a moderate degree. And enough cash discipline over the medium term to keep net Crown debt, as a per cent of GDP, moderating in line with new extended target of 10 to 15%

of GDP by 2025. This will keep the debt programme limited to what the Debt Management Office prefers as a gross amount, to maintain liquidity and the like. New Zealand's fiscal story will thus continue to stand out on the global stage. We would thus expect the rating agencies to make positive noises about New Zealand's Budget.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Finance Minister Delivers Budget				14:00
UK GDP QoQ	1 Q P	0.3	0.3	20:30
US Advance Goods Trade Balance	Apr	-64.5	-64.2	00:30

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	0.7045	+0.5	0.6992	0.7055	CHF	0.9739	-0.2	S&P 500	2,403	+0.2	15.8	Oil (Brent)	53.93	-0.4
AUD	0.7496	+0.2	0.7443	0.7496	SEK	8.674	-0.4	Dow	21,011	+0.3	18.7	Oil (WTI)	51.29	-0.3
EUR	1.1215	+0.3	1.1169	1.1216	NOK	8.340	-0.4	Nasdaq	6,161	+0.4	26.7	Gold	1257.0	+0.1
GBP	1.2957	-0.0	1.2927	1.2999	HKD	7.788	+0.0	Stoxx 50	3,587	-0.2	19.2	HRC steel	613.0	+0.0
JPY	111.60	-0.2	111.59	112.13	CNY	6.890	+0.1	FTSE	7,515	+0.4	20.8	CRB	183.9	-0.6
CAD	1.3422	-0.7			SGD	1.385	-0.4	DAX	12,643	-0.1	25.7	Wheat Chic.	446.0	+0.3
NZD/AUD	0.9398	+0.2			IDR	13,311	+0.1	CAC 40	5,341	-0.1	20.5	Sugar	15.67	-1.7
NZD/EUR	0.6282	+0.2			THB	34.35	-0.3	Nikkei	19,743	+0.7	17.8	Cotton	77.54	+0.3
NZD/GBP	0.5437	+0.5			KRW	1,126	+0.2	Shanghai	3,064	+0.1	8.8	Coffee	128.6	-1.3
NZD/JPY	78.62	+0.3			TWD	30.17	+0.0	ASX 200	5,769	+0.2	7.4	WM powder	3175.0	+0.0
NZ TWI	76.30	+0.4			PHP	49.95	+0.3	NZX 50	7,422	+0.5	7.4	Australian Futures		
											3 year bond	98.27	0.02	
											10 year bond	97.52	0.04	
Interest Rates							NZ Government Bonds				NZ Swap Yields			
Rates		Swap Yields		Benchmark 10 Yr Bonds				Last		Last				
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day							
USD	1.00	1.19	1.53	2.20	USD	2.26	-0.02	NZGB 3 04/15/20	2.11	0.01	1 year	2.03	-0.00	
AUD	1.50	1.74	1.77	2.71	AUD	2.48	0.04	NZGB 6 05/15/21	2.25	0.01	2 year	2.24	+0.00	
NZD	1.75	1.97	2.24	3.27	NZD	2.84	0.01	NZGB 5 1/2 04/15/23	2.52	0.02	5 year	2.78	+0.02	
EUR	0.00	0.06	-0.14	0.82	GER	0.40	-0.01	NZGB 2 3/4 04/15/25	2.74	0.02	7 year	3.03	+0.02	
GBP	0.25	0.30	0.55	1.16	GBP	1.07	-0.01	NZGB 4 1/2 04/15/27	2.84	0.01	10 year	3.27	+0.03	
JPY	-0.05	-0.01	0.04	0.24	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.13	0.01	15 year	3.54	+0.04	
CAD	0.50	1.17	1.04	1.75	CAD	1.49	-0.02							

* 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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