

26 June 2017

## Events Round-Up

GE: Markit manufacturing PMI, Jun P: 59.3 vs. 59.0 exp.

GE: Markit services PMI, Jun P: 53.7 vs. 55.4 exp.

EC: Markit manufacturing PMI, Jun P: 57.3 vs. 56.8 exp.

EC: Markit services PMI, Jun P: 54.7 vs. 56.1 exp.

CA: CPI (y/y%), May: 1.3 vs. 1.5 exp.

US: Markit manufacturing PMI, Jun P: 52.1 vs. 53.0 exp.

US: Markit services PMI, Jun P: 53.0 vs. 53.5 exp.

US: New home sales ('000), May: 610 vs. 590 exp.

## Good Morning

The low vol environment continued on Friday, with only modest changes in bonds, equities and currencies. The USD ended the week on a soft note for no particular reason. Strong new home sales data were ignored. Trump returned to the spotlight with his admission that he never taped his conversations with former FBI Director Comey. This was widely seen as another blow to his credibility as investigators continue with their probe into allegations of his obstruction of justice and associations with Russia.

All the major currencies increased by 0.3-0.4% against the USD, with the exceptions being the Yen (flat) and the weaker CAD following soft inflation data. A soft Canada CPI result got the market re-thinking rate hike expectations. One core inflation measure fell to its lowest rate in 18 years. Before the result, OIS pricing suggested a better than even chance of a hike as soon as next month, but that expectation shifted forward three months to October. USD/CAD ended the day up 0.25% to 1.3265.

EUR managed a 0.4% rise to just under 1.12, despite services PMI data undershooting expectations. GBP was up 0.3% to 1.2720 on the anniversary of the Brexit referendum.

NZD gained 0.3% to close the week at 0.7285, after a couple of failed attempts to reach 0.73. NZD crosses were fairly flat, although the softish yen meant that NZD/JPY managed to close the week just above 81. For the week as a whole, the NZD was the best performing major, although gains were modest at roughly between 0.5-1.0% over a generally uneventful and low volatility week.

After the NZD's strong run of late we expect a period of consolidation around the current level. Another fairly uneventful calendar for the week ahead doesn't inspire any alternative view. The latest CFTC data show net speculative long NZD positions at their highest level in over four years, following a three-month period of mostly short-positioning. This suggests that "hot" money has been behind some of the NZD's recent outperformance, making the currency more vulnerable to the downside than usual on any negative news.

Global bond yield movements on Friday were microscopic. The US 10-year rate traded within a 2.5bp range, tending towards the lower end of the range towards the market close. Relative to the NZ close it was down about 1bp to 2.14%. Two more Fed speakers (both non-voters) were on the circuit with opposing views. Known hawk Mester told reporters after a speech that four months of softening inflation haven't changed her outlook for the economy or her preference for continued gradual rate hikes. Uber-dove Bullard said the absence of inflation pressures gives the central bank scope for patience.

NZ's swap curve barely changed, with the 2-year rate flat at 2.205% and the 10-year rate down 1bp to 3.1350%. There was more action in the bond market, with strong demand for the tender of NZ 20-year government bonds, the last auction for that particular bond for at least three months, seeing the yield fall for the day by 5.5bps to 3.27%. With the government's next nominal bond tender some four weeks away, a lack of forthcoming supply helped drag down rates across the curve. Anecdotal evidence suggests good demand for NZ's "high-yielding" government bonds. The 10-year bond fell by 3.5bps to 2.725%.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

	Period	Cons.	Prev.	NZT
US Fed's Williams speaks in Sydney				16:20
GE IFO expectations	Jun	106.4	106.5	20:00
US Durable goods orders (m/m%)	May P	-0.6	-0.8	00:30
US Durables ex transportation (m/m%)	May P	0.4	-0.5	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	0.7285	+0.3	0.7266	0.7297	CHF	0.9693	-0.3	S&P 500	2,438	+0.2	15.4	Oil (Brent)	45.68	+1.0
AUD	0.7568	+0.3	0.7552	0.7583	SEK	8.721	-0.3	Dow	21,395	-0.0	18.8	Oil (WTI)	43.01	+0.6
EUR	1.1194	+0.4	1.1162	1.1209	NOK	8.451	-0.4	Nasdaq	6,265	+0.5	27.6	Gold	1256.2	+0.7
GBP	1.2718	+0.3	1.2696	1.2744	HKD	7.800	+0.0	Stoxx 50	3,544	-0.3	16.7	HRC steel	589.0	+0.0
JPY	111.28	-0.0	111.15	111.36	CNY	6.837	+0.0	FTSE	7,424	-0.2	17.1	CRB	167.7	+0.7
CAD	1.3267	+0.3			SGD	1.387	-0.2	DAX	12,733	-0.5	24.1	Wheat Chic.	473.5	-0.4
NZD/AUD	0.9626	-0.1			IDR	13,307	-0.1	CAC 40	5,266	-0.1	17.9	Sugar	12.97	+1.0
NZD/EUR	0.6508	-0.1			THB	33.93	-0.2	Nikkei	20,133	+0.1	34.6	Cotton	72.65	+2.1
NZD/GBP	0.5728	-0.0			KRW	1,139	-0.2	Shanghai	3,158	+0.3	10.6	Coffee	123.0	+5.6
NZD/JPY	81.07	+0.2			TWD	30.36	-0.2	ASX 200	5,716	+0.2	11.8	WM powder	3050.0	-1.6
NZ TWI	78.74	+0.1			PHP	50.18	-0.4	NZX 50	7,554	-0.1	13.3	<b>Australian Futures</b>		
<b>Interest Rates</b>										3 year bond			98.2	0.01
										10 year bond			97.60	0.01
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	1.30	1.54	2.12	USD	2.14	-0.01	NZGB 3 04/15/20	2.11	-0.02	1 year	2.03	-0.01	
AUD	1.50	1.72	1.82	2.65	AUD	2.37	-0.01	NZGB 6 05/15/21	2.19	-0.02	2 year	2.21	0.00	
NZD	1.75	1.96	2.21	3.14	NZD	2.73	-0.03	NZGB 5 1/2 04/15/23	2.45	-0.02	5 year	2.68	-0.00	
EUR	0.00	0.06	-0.18	0.72	GER	0.26	0.00	NZGB 2 3/4 04/15/25	2.64	-0.04	7 year	2.91	-0.01	
GBP	0.25	0.30	0.60	1.13	GBP	1.03	0.02	NZGB 4 1/2 04/15/27	2.73	-0.03	10 year	3.14	-0.01	
JPY	-0.05	0.00	0.04	0.24	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	3.05	-0.04	15 year	3.37	-0.02	
CAD	0.50	1.17	1.23	1.81	CAD	1.48	-0.03	NZGB 2 3/4 04/15/37	3.27	-0.06				

\* 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: NY close Sat morning

Source: Bloomberg

## Contact Details

<b>New Zealand</b>	Jason Wong	Senior Market Strategist	+(64 4) 924 7652
<b>Australia</b>	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
<b>London</b>	Nick Parsons	Head of Research, UK & Europe	+(44 0) 20 7710 2993
	Gavin Friend	Senior Market Strategist	+(44 0) 20 7710 0898

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

**National Australia Bank Limited is not a registered bank in New Zealand.**