

26 May 2017

Events Round-Up

NZ: NZ Budget

UK: GDP (q/q%), Q1 P: 0.2 vs. 0.3 exp.

US: Advance goods trade bal (\$b), Apr: -67.6 vs. -64.5 exp.

US: Wholesale inventories (m/m%), Apr: -0.3 vs. 0.2 exp.

Good Morning

US equities are probing fresh highs, led by the consumer discretionary sector on positive retail reports, and the VIX index is probing sub-10 levels. However, the risk-on environment hasn't supported the NZD as it weakens a little alongside other commodity currencies on much weaker oil prices. UST yields have traded in a tight range.

The key news overnight was that OPEC and its allies agreed to extend curbs on oil production for another nine months through to March 2018. While this agreement was widely anticipated, some had expected further reductions in production to offset the soaring output from US shale producers. The disappointment led to a 4½-5% fall in crude oil prices, taking the WTI benchmark down to below USD 49 per barrel.

Commodity currencies have suffered as a result, with NOK leading the charge, down 0.8% and AUD and CAD down around 0.6-0.7%. This takes AUD back down to around the 0.7450 mark. This dynamic has had some spillover effect on the NZD, which is trading softer at 0.7020, but also sees NZD/AUD up to 0.9420, on track for its highest close since early February.

Yesterday's NZ Budget had little impact on the market. The strong fiscal accounts and tailwind from strong nominal GDP growth allowed the Finance Minister to offer some modest tax relief and benefits across a wide range of the populace, and increased infrastructure spending, without disturbing the path of lower net debt projections. The Budget was all very nice but there was probably more interest in NZ's fledgling space industry, with the first launch of a rocket into space (albeit not quite into orbit). NZ will soon become the 11th country capable of launching satellites into space from within its own borders.

The USD has recovered the ground lost after yesterday's FOMC minutes were seen to be on the dovish side. The discussion that "it would be prudent" to ensure that evidence confirms the transitory nature of the Q1

slowdown threw some doubt into the timing of further hikes, but the market now seems less worried about that. Data overnight were mixed, with low jobless claims confirming that the labour market remains tight, but other data were enough to soften expectations of the extent of the expected rebound in Q2 GDP. The advance reading of the US trade balance for April showed a wider than expected deficit, while a separate report showed a drop in inventories. The less widely followed Bloomberg consumer comfort index ticked higher, with the "buying climate" index jumping to a 15-year high. The USD is up against against most other majors, with the overall index up around 0.3% for the day.

GBP softened after the UK second reading of Q1 GDP showed weaker growth. After GBP looked like it was on an upward plane through the Asian trading session, it promptly fell and is currently near its session lows around 1.2940. EUR is struggling to make further gains after its recent strong run and is looking "over-bought" on short-term technical indicators. It sits this morning around 1.12.

US Treasury rates are barely showing any change. The 10-year rate has traded in a 2.24-2.27% range. A June rate hike by the Fed is still seen as a fairly high probability event, with about an 80% chance priced in, but the picture gets murkier from there, with only about 35bps of hikes in total priced in through to year end.

The NZ rates market showed little reaction to the Budget. The domestic bond programme was little changed and the government signalled that it recognises the importance of maintaining a sustainable NZGB market and intends to maintain levels of NZGBs on issue at not less than 20 percent of GDP over time. Issuing debt for the sake of it is a position that most other countries would envy. A new 12-year nominal bond is expected to be launched, via syndication, before the end of the year. NZ's 10-year bond closed the day flat at 2.84%, hovering around its lows for the year.

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Coming Up

	Period	Cons.	Prev.	NZT
JN CPI (y/y%)	Apr	0.4	0.2	11:30
JN CPI ex fresh food, energy (y/y%)	Apr	0.0	-0.1	11:30
NZ New Zealand Plans to Sell \$150m 2037 bonds				14:05
US GDP (ann, q/q%, second estimate)	Q2	0.9	0.7	00:30
US Durable goods orders (m/m%)	Apr P	-1.5	0.9	00:30
US Durables ex transport (m/m%)	Apr P	0.4	0.0	00:30
US U. of Mich. consumer sentiment	May F	97.5	97.7	02:00

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	0.7020	-0.4	0.7017	0.7055	CHF	0.9733	+0.0	S&P 500	2,417	+0.5	15.6	Oil (Brent)	51.41	-4.8	
AUD	0.7452	-0.7	0.7451	0.7512	SEK	8.692	+0.3	Dow	21,092	+0.4	18.2	Oil (WTI)	48.85	-4.9	
EUR	1.1201	-0.2	1.1194	1.1250	NOK	8.399	+0.8	Nasdaq	6,216	+0.9	27.0	Gold	1254.9	+0.1	
GBP	1.2937	-0.3	1.2932	1.3015	HKD	7.792	+0.0	Stoxx 50	3,585	-0.1	17.1	HRC steel	613.0	+0.0	
JPY	111.82	+0.3	111.59	111.95	CNY	6.869	-0.3	FTSE	7,518	+0.0	20.0	CRB	181.2	-1.5	
CAD	1.3489	+0.6			SGD	1.387	+0.2	DAX	12,622	-0.2	23.7	Wheat Chic.	444.3	-0.4	
NZD/AUD	0.9420	+0.3			IDR	13,282	-0.2	CAC 40	5,337	+0.2	19.1	Sugar	15.66	-0.1	
NZD/EUR	0.6267	-0.3			THB	34.17	-0.5	Nikkei	19,813	+0.4	18.1	Cotton	77.16	-0.5	
NZD/GBP	0.5426	-0.1			KRW	1,117	-0.9	Shanghai	3,108	+1.4	10.1	Coffee	129.3	+0.6	
NZD/JPY	78.50	-0.1			TWD	30.07	-0.3	ASX 200	5,790	+0.4	7.5	WM powder	3160.0	-0.5	
NZ TWI	76.11	-0.3			PHP	49.85	-0.2	NZX 50	7,434	+0.2	7.0	Australian Futures			
													3 year bond	98.28	0.00
													10 year bond	97.54	0.01
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	1.00	1.20	1.53	2.20	USD	2.25	0.00	NZGB 3 04/15/20	2.11	0.00	1 year	2.03	-0.01		
AUD	1.50	1.74	1.78	2.71	AUD	2.44	-0.04	NZGB 6 05/15/21	2.24	-0.00	2 year	2.23	-0.01		
NZD	1.75	1.97	2.23	3.24	NZD	2.84	0.00	NZGB 5 1/2 04/15/23	2.52	-0.00	5 year	2.75	-0.02		
EUR	0.00	0.06	-0.15	0.81	GER	0.36	-0.04	NZGB 2 3/4 04/15/25	2.73	-0.01	7 year	3.00	-0.03		
GBP	0.25	0.30	0.54	1.14	GBP	1.04	-0.04	NZGB 4 1/2 04/15/27	2.84	0.00	10 year	3.24	-0.03		
JPY	-0.05	-0.01	0.04	0.24	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.14	0.00	15 year	3.51	-0.03		
CAD	0.50	1.17	1.05	1.73	CAD	1.46	-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 06:51

Source: Bloomberg

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