

27 July 2017

Events Round-Up

NZ: RBNZ's McDermott Speech
NZ: Trade Balance NZDm, Jun: 242 vs 150 exp.
AU: CPI QoQ, 2Q: 0.2 vs 0.4 exp.
AU: CPI YoY, 2Q: 1.9 vs 2.2 exp.
AU: CPI Trimmed Mean YoY, 2Q: 1.8 vs 1.8 exp.
AU: CPI Weighted Median YoY, 2Q: 1.8 vs 1.7 exp.
AU: RBA's Lowe Speech
UK: GDP QoQ, 2Q: 0.3 vs 0.3 exp.
US: New Home Sales, Jun: 610 vs 615 exp.
US: FOMC Rate Decision (Up Bound): 1.25 vs 1.25 exp

Good Morning

It was all about the Fed overnight with markets relatively subdued ahead of the 6am decision. In the wash up we see the US yields and US dollar lower. Equities are a touch higher and oil prices have extended gains.

The Fed kept rates unchanged as widely expected. It repeated that balance sheet unwind is to start 'relatively soon'. September remains likely, if not October. The Fed was upbeat on the labour market progress, but noted that overall and core inflation had declined. A sniff that lower inflation is lingering (although still seen rising to 2%) saw the USD sold post announcement. After floating marginally higher through the night, the DXY US dollar index is now down around 0.6%. USD/JPY dropped toward 111.00 and currently sits around 111.20, after rising toward 112.20 earlier.

EUR/USD jumped post Fed. The single currency was already on the rise following comments by the ECB's Nowotny saying that the ECB must reconsider policy with deflation risk gone. From around 1.1635, EUR/USD lifted to 1.1650 on Nowotny before stretching up toward 1.1740 shortly after the Fed announcement. The pair currently sits around 1.1720. GBP/USD is up 0.6%, at around 1.3100 on a softer USD. UK Q2 GDP rose 0.3%, meeting expectations.

NZD tops the overnight currency leaderboard, up more than 1%. This morning the NZD/USD briefly popped above 0.7520. Positive risk sentiment, higher commodity prices (including further gains in wholemilk powder futures), and a lack of jawboning for the RBNZ in yesterday's speech from Assistant Governor McDermott already had the NZD in the ascendency. Indeed, in the speech there was an

implication that the NZD is not overvalued given the likes of a positive terms of trade outlook. We agree. That said, there was discussion that a lower NZD would be needed to lower NZ's external vulnerabilities further and would help to rebalance growth towards the tradables sector. NZD/USD edged higher post speech, reversing some softening beforehand. But it was the post-Fed lunge lower in the USD that saw NZD/USD pop to its highest level since May 2015. The pair currently hovers around the 0.7500 mark, now only a cent below our short term fair value estimate of 0.7600.

AUD was hit yesterday by softer CPI data and RBA Governor Lowe reinforcing that the Bank does not need to automatically follow global peers in removing stimulus. The Governor added that it would be better if the AUD is a bit lower than it is. AUD/USD fell to around 0.7880 late yesterday, before staging a recovery overnight and catapulting higher after the Fed. AUD/USD pierced through 0.8000 following the Fed and sits just under that level currently. NZD/AUD has maintained its rise after yesterday's AU CPI sitting around 0.9380 this morning.

Oil prices extended their recent rise, adding more than 1% overnight as data showed US stockpiles fell to their lowest levels since the start of the year. A lower USD supported the gains. Brent crude is nudging \$US51/bbl, its highest level since late May.

Global yields were generally lower ahead of the Fed, with US yields extended declines after the announcement. US 10-year Treasury yields around currently down 5bps to 2.285%. Short end yields also fell, as the market questions the resolve of the Fed to hike in December.

Yesterday's RBNZ speech noted its current estimate for the neutral cash rate is around 3.5%. So the OCR, currently at 1.75%, is clearly stimulatory. The RBNZ has been factoring in an on-going decline in neutral cash for some time, so the impact on the outlook for interest rates from this assessment of the neutral rate 'will be modest'.

The market continues to price a first full 25bp OCR hike by August next year. With the RBNZ unlikely to change the OCR anytime soon, curve direction will continue to be heavily influenced by offshore.

Local yields rose and curves steepened yesterday, reflecting prior session movements offshore rather than any reaction to the RBNZ speech. NZ 10-year swap rose more than 4 bps to close at 3.325%, 5-year swap rose around 2bps to 2.795% and 2-year eased less than 1bp to sit just above 2.22%. Yields were higher before gains

were pared post the softer AU CPI data and RBA Governor Lowe's comments, as AU yields declined.

The offshore moves lower will set the tone for local rates today with nothing on the home calendar.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	GfK Consumer Confidence	Aug	10.6	10.6	18:00
US	Durable Goods Orders	Jun P	3.5	-0.8	00:30
US	Durables Ex Transportation	Jun P	0.4	0.3	00:30
US	Advance Goods Trade Balance	Jun	-65.5	-65.9	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	0.7496	+1.1	0.7410	0.7489	CHF	0.9518	-0.1			S&P 500	2,478	+0.0	14.2	Oil (Brent)	50.89	+1.4
AUD	0.7992	+0.7	0.7878	0.7978	SEK	8.174	-0.4			Dow	21,698	+0.4	17.5	Oil (WTI)	48.66	+1.6
EUR	1.1722	+0.6	1.1613	1.1708	NOK	7.901	-0.9			Nasdaq	6,421	+0.1	25.7	Gold	1260.5	+0.7
GBP	1.3102	+0.6	1.3000	1.3096	HKD	7.810	+0.0			Stoxx 50	3,491	+0.5	17.2	HRC steel	628.0	-3.1
JPY	111.23	-0.6	111.31	112.20	CNY	6.754	+0.0			FTSE	7,452	+0.2	10.8	CRB	179.5	+1.0
CAD	1.2461	-0.4			SGD	1.358	-0.4			DAX	12,305	+0.3	20.1	Wheat Chic.	502.8	+0.8
NZD/AUD	0.9379	+0.4			IDR	13,338	+0.1			CAC 40	5,190	-0.2	18.1	Sugar	14.23	+2.4
NZD/EUR	0.6395	+0.4			THB	33.39	-0.2			Nikkei	20,050	+0.5	20.3	Cotton	69.02	-0.3
NZD/GBP	0.5721	+0.5			KRW	1,122	+0.6			Shanghai	3,248	+0.1	8.5	Coffee	134.8	+3.2
NZD/JPY	83.38	+0.5			TWD	30.35	+0.0			ASX 200	5,777	+0.9	4.3	WM powder	3280.0	+0.0
NZ TWI	79.12	+0.8			PHP	50.65	+0.2			NZX 50	7,711	-0.0	5.6	Australian Futures		
Interest Rates													3 year bond 98.01 0.02			
													10 year bond 97.30 0.06			
Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields							
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last					
USD	1.25	1.32	1.60	2.25	USD	2.29	-0.05	NZGB 3 04/15/20	2.13	0.01	1 year	2.04	-0.00			
AUD	1.50	1.69	1.91	2.89	AUD	2.73	0.04	NZGB 6 05/15/21	2.29	0.02	2 year	2.22	-0.00			
NZD	1.75	1.94	2.22	3.33	NZD	2.98	0.04	NZGB 5 1/2 04/15/23	2.61	0.02	5 year	2.80	0.02			
EUR	0.00	0.06	-0.17	0.92	GER	0.56	-0.01	NZGB 2 3/4 04/15/25	2.84	0.03	7 year	3.07	0.04			
GBP	0.25	0.29	0.60	1.30	GBP	1.23	-0.03	NZGB 4 1/2 04/15/27	2.98	0.04	10 year	3.33	0.04			
JPY	-0.06	-0.01	0.04	0.26	JPY	0.08	0.00	NZGB 3 1/2 04/14/33	3.33	0.04	15 year	3.57	0.04			
CAD	0.75	1.17	1.57	2.23	CAD	1.96	-0.06	NZGB 2 3/4 04/15/37	3.55	0.05						

* 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 07:37

Source: Bloomberg

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