

27 June 2017

Events Round-Up

GE: IFO expectations, Jun: 106.8 vs. 106.4 exp.

US: Durable goods orders (m/m%), May: -1.1 vs. -0.6 exp.

US: Dur. orders ex trans. (m/m%), May: 0.1 vs. 0.4 exp.

Good Morning

After a quiet week last week we're on track for another one and it's a struggle to write anything meaningful today. There have been only a few bits and bobs to report and that is reflected in modest market movements. Currency movements against the USD have generally been within 0.2%, with a notable exception being a soft yen. UST yields have nudged lower after some soft data.

The USD majors index is up slightly. It came under a little pressure following the release of softer than expected durable goods orders, but has since recovered. The data are volatile anyway and some weakness can probably be explained by businesses awaiting more concrete tax plans before committing to new investment. Earlier, Germany business confidence data measured by IFO rose to a fresh high.

In central bank speak, yesterday, the Fed's Williams (non-voter) looked to side with Chair Yellen in his comments in calling for further gradual increases in interest rates, saying he expects inflation to rise to Fed's 2 percent target next year as unemployment edges lower. NY Fed President Dudley was also on the wires, as was the ECB's Draghi, but neither offered anything fresh to say.

The NZD is fairly flat hovering just under 0.73. The high over the last couple of weeks has been 0.7320 so that is in sight for the technicians. Overnight it reached 0.7310, but it settled back down. We reported yesterday on the high level of net long speculative positioning in the NZD that has recently emerged. This skews the risk to the downside on any negative news, although we can't see much NZ-specific news over the next couple of weeks to drive it lower. The USD will remain in the driving seat.

The AUD and CAD have made small gains against the USD. Oil prices are up for the third consecutive day (again, less than 1%), although the recovery after the steep fall over the past month has been fairly modest to

date. AUD is up to around 0.7585, leaving NZD/AUD around 0.9610.

In the UK, the long-awaited deal between the Conservatives Northern Ireland's Democratic Unionist Party has finally been signed, which allows the new government a slim working majority. This was well anticipated and GBP remains steady at 1.2715.

The only point of interest in currency markets is the underperformance of the yen against a trend of slightly lower global bond rates. Normally, lower rates put upward pressure on the yen. The yen's correlation with UST rates might well be reducing. USD/JPY is up 0.6% to 111.90 and the yen's underperformance sees NZD/JPY up to 81.5.

UST yields are lower about 1bp across the curve and down 2bps relative to the NZ close, not helped by the softer durables goods order data, although we'd note that UK and Germany 10-year rates are down by 1-2bps as well.

NZ swap rates were little changed yesterday, with rates up 1bp or less across the curve. There remains some residual paying interest at the short end of the curve, with the 2-year rate up 1bp to 2.215%, but still well within the tight 2.15-2.25% range it has been stuck in since the May MPS over six weeks ago. Steady monetary policy for an extended period should keep the range tight over coming months. Thus, the yield curve will be largely determined by the path of US long-term rates. The near term picture looks like one of consolidation, but with significant net long speculative positioning, the vulnerability is to the upside for rates on any positive news.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade balance (\$m)	May	419	578	10:45
US	Fed's Williams speaks in Sydney				19:30
US	Conf. Board consumer confidence	Jun	116	117.9	02:00
US	Fed's Harker speaks in London				03:00
US	Fed's Yellen speaks in London				05:00

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	0.7288	+0.0	0.7262	0.7310	CHF	0.9726	+0.3	S&P 500	2,442	+0.1	19.8	Oil (Brent)	45.82	+0.6	
AUD	0.7585	+0.2	0.7567	0.7599	SEK	8.725	+0.0	Dow	21,441	+0.2	23.2	Oil (WTI)	43.34	+0.8	
EUR	1.1180	-0.1	1.1172	1.1220	NOK	8.480	+0.3	Nasdaq	6,258	-0.1	32.9	Gold	1246.3	-0.8	
GBP	1.2717	-0.0	1.2706	1.2760	HKD	7.799	-0.0	Stoxx 50	3,562	+0.5	28.3	HRC steel	589.0	+0.0	
JPY	111.88	+0.5	111.29	111.93	CNY	6.841	+0.1	FTSE	7,447	+0.3	21.3	CRB	168.6	+0.5	
CAD	1.3249	-0.1			SGD	1.389	+0.1	DAX	12,771	+0.3	33.6	Wheat Chic.	465.5	-1.7	
NZD/AUD	0.9608	-0.1			IDR	13,307	+0.0	CAC 40	5,296	+0.7	29.0	Sugar	12.61	-2.8	
NZD/EUR	0.6519	+0.1			THB	33.98	+0.1	Nikkei	20,153	+0.1	31.6	Cotton	73.68	+1.4	
NZD/GBP	0.5731	+0.1			KRW	1,137	-0.2	Shanghai	3,185	+0.9	10.0	Coffee	124.5	+1.2	
NZD/JPY	81.54	+0.6			TWD	30.33	-0.1	ASX 200	5,720	+0.1	11.3	WM powder	3050.0	+0.0	
NZ TWI	78.77	+0.1			PHP	50.17	-0.0	NZX 50	7,595	+0.6	13.6	Australian Futures			
													3 year bond	98.19	0.01
													10 year bond	97.60	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	1.29	1.55	2.12	USD	2.13	-0.01	NZGB 3 04/15/20	2.11	0.00	1 year	2.03	0.00		
AUD	1.50	1.72	1.83	2.63	AUD	2.37	0.00	NZGB 6 05/15/21	2.20	0.00	2 year	2.22	0.01		
NZD	1.75	1.96	2.21	3.14	NZD	2.73	0.00	NZGB 5 1/2 04/15/23	2.46	0.00	5 year	2.69	0.01		
EUR	0.00	0.06	-0.18	0.72	GER	0.25	-0.01	NZGB 2 3/4 04/15/25	2.64	0.00	7 year	2.92	0.01		
GBP	0.25	0.30	0.59	1.13	GBP	1.01	-0.02	NZGB 4 1/2 04/15/27	2.73	0.00	10 year	3.14	0.01		
JPY	-0.05	0.00	0.04	0.24	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.05	0.00	15 year	3.38	0.00		
CAD	0.50	1.17	1.23	1.81	CAD	1.46	-0.01	NZGB 2 3/4 04/15/37	3.27	-0.00					

* 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

Contact Details

New Zealand	Jason Wong	Senior Market Strategist	+(64 4) 924 7652
Australia	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
London	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.