

28 August 2017

Events Round-Up

JN: CPI (y/y%), Jul: 0.4 vs. 0.4 exp.
 JN: CPI ex fresh food, energy (y/y%), Jul: 0.1 vs. 0.1 exp.
 GE: IFO expectations, Aug: 107.9 vs. 106.8 exp.
 US: Durable goods orders, Jul: -6.8 vs. -6.0 exp.
 US: Durables ex transportation, Jul: 0.5 vs. 0.4 exp.

Good Morning

The Jackson Hole speech duo of Yellen and Draghi drove a weaker USD, with EUR leading the charge, while the NZD was a bystander. US 10-year Treasury yields closed the week near its lows.

Friday's price action was all about waiting to see what Fed Chair Yellen and ECB President Draghi would say at their respective speaking slots at the Jackson Hole symposium, something the market had in its sights all week. Earlier in the session, the key data releases were largely ignored, with Germany's IFO business expectations index coming in stronger than expected, while US durable goods orders data were broadly in line, excluding the volatile transportation component.

Speaking about financial stability, Yellen had the opportunity to guide the market towards further rate hikes and argue that financial conditions were easier since the tightening cycle had begun, while QE policy had inflated asset prices. Instead, she steered well clear of such logic. She offered a history lesson on the GFC, defended the introduction of new regulations and concluded that only modest adjustments to the current regulatory setting are needed. Her comments are at odds with Trump's desire to wind-back some of the post GFC regulations, so she did herself no favours in getting re-elected as Chair early next year. The market had obviously got itself a little long USD ahead of the speech and the USD-majors index fell by about 0.5% in the following hours.

As sources had earlier indicated, Draghi's speech didn't give fresh information on the outlook for monetary policy and instead he focused his speech on a defence of free trade and post-crisis financial regulation. The lack of any comment on the stronger EUR encouraged the market to take it higher, adding to the gains seen after Yellen's speech. In the Q&A he reiterated the ECB's guidance that with low inflation "a significant degree of monetary accommodation" is still warranted.

The USD ended the day down on all the major crosses

and the majors TWI index was down 0.6% for the session. The fall in the USD saw it end the week uncomfortably close to the key technical levels on the various dollar indices. A further nudge down would see the chartists salivating, calling for another 5+% fall. EUR was the biggest beneficiary, closing the day up 1.1% to 1.1924, having earlier reached a fresh multi-year high of 1.1941.

The NZD was out of the spotlight and ended the week just above 0.7240, up 0.4% for the day reflecting the weak USD. There wasn't a lot of change in the crosses, apart from the 0.6% fall in NZD/EUR to 0.6070, reflecting the strength of EUR. NZD/AUD was flat at 0.9130.

JPY underperformed a touch, seeing USD/JPY down "only" 0.2% to 109.40 and NZD/JPY up 0.4% to 79.2. BoJ Governor Kuroda gave an interview on the sidelines of Jackson Hole. Earlier in the day, CPI data came in line, confirming that the BoJ was making little progress in driving inflation towards its 2% target. In the interview, Kuroda said his yield-curve control program has been working "quite well" and that he doesn't see a need to adjust it at present. He noted that since JGBs remaining in the market were declining, each JGB purchase had a greater impact on interest rates, "...so that in coming months there will be less and less need to purchase JGBs in order to maintain the yield curve".

Staying clear of monetary policy, Yellen's speech had little impact on the short end of the yield curve, and the US 2-year Treasury rate was unchanged at 1.33%. The speech appeared to have more impact on the long end of the curve, perhaps a reflection of positioning ahead of the speech, seeing the 10-year rate down 3bps to 2.165%, close to its lows for the week.

The short end of NZ's yield curve remained underpinned by expectations of unchanged monetary policy for a long time, while global forces saw the 10-year swap rate fall by 2bps to 3.13%. More downward pressure today could see it break through the year-to-date low of 3.11%.

It's a quiet economic calendar over the next 24 hours, but it's a fairly heavy week, with focus on the US PCE deflators and the key employment report at the end of the week a highlight.

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Coming Up

	Period	Cons.	Prev.	NZT
US Advance Goods Trade Balance	Jul	-64.5	-63.9	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	0.7241	+0.4	0.7205	0.7259	CHF	0.9570	-0.9		S&P 500	2,443	+0.2	12.6	Oil (Brent)	52.41	+0.7
AUD	0.7932	+0.3	0.7897	0.7954	SEK	7.964	-1.3		Dow	21,814	+0.1	18.6	Oil (WTI)	47.87	+0.9
EUR	1.1924	+1.1	1.1774	1.1890	NOK	7.753	-1.2		Nasdaq	6,266	-0.1	20.1	Gold	1292.5	+0.5
GBP	1.2882	+0.6	1.2794	1.2888	HKD	7.818	-0.1		Stoxx 50	3,439	-0.2	14.2	HRC steel	621.0	+0.0
JPY	109.36	-0.2	109.12	109.84	CNY	6.647	-0.2		FTSE	7,401	-0.1	8.2	CRB	177.8	+0.0
CAD	1.2481	-0.3			SGD	1.356	-0.4		DAX	12,168	-0.1	14.9	Wheat Chic.	435.3	+0.2
NZD/AUD	0.9129	+0.0			IDR	13,344	-0.0		CAC 40	5,104	-0.3	14.9	Sugar	14.03	+0.1
NZD/EUR	0.6073	-0.6			THB	33.24	-0.3		Nikkei	19,453	+0.5	18.9	Cotton	68.61	-2.2
NZD/GBP	0.5621	-0.2			KRW	1,128	+0.0		Shanghai	3,332	+1.8	8.5	Coffee	131.4	+2.7
NZD/JPY	79.19	+0.2			TWD	30.21	-0.1		ASX 200	5,744	-0.0	4.1	WM powder	3250.0	+0.3
NZ TWI	76.18	+0.1			PHP	51.07	+0.1		NZX 50	7,858	-0.1	6.3	Australian Futures		
												3 year bond	98.02	0.00	
												10 year bond	97.36	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				
USD	1.25	1.32	1.56	2.11	USD	2.17	-0.03	NZGB 3 04/15/20	2.03	-0.01	1 year	2.02	-0.00		
AUD	1.50	1.71	1.93	2.80	AUD	2.65	0.01	NZGB 6 05/15/21	2.17	-0.01	2 year	2.18	-0.00		
NZD	1.75	1.95	2.18	3.13	NZD	2.89	-0.02	NZGB 5 1/2 04/15/23	2.47	-0.02	5 year	2.64	-0.01		
EUR	0.00	0.06	-0.18	0.82	GER	0.38	0.00	NZGB 2 3/4 04/15/25	2.73	-0.02	7 year	2.88	-0.01		
GBP	0.25	0.28	0.56	1.14	GBP	1.05	0.00	NZGB 4 1/2 04/15/27	2.89	-0.02	10 year	3.13	-0.02		
JPY	-0.05	-0.03	0.01	0.21	JPY	0.02	-0.01	NZGB 3 1/2 04/14/33	3.28	-0.02	15 year	3.38	-0.02		
CAD	0.75	1.17	1.59	2.15	CAD	1.87	-0.01	NZGB 2 3/4 04/15/37	3.53	-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: NY close Sat morning

Source: Bloomberg

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