

28 July 2017

Events Round-Up

GE: GfK Consumer Confidence, Aug: 10.8 vs 10.6 exp.

US: Durable Goods Orders, Jun P: 6.5 vs 3.5 exp.

US: Durables Ex Transportation, Jun P: 0.2 vs 0.4 exp.

US: Adv. Goods Trade Balance, Jun: -63.9 vs -65.5 exp.

Good Morning

A note of caution kept back into markets overnight. Equities wavered and volatility lifted off extreme lows. The S&P500 is currently down 0.2% after paring earlier losses and the VIX fear index showed a pulse for the first time in a couple of weeks. US yields are higher, as oil prices extend their march north.

In currencies, the USD fought back overnight following the towelling it took yesterday after the Fed decision that, in the bigger picture, was fundamentally little changed and certainly not that different to prior expectations. The USD rose against most major currencies overnight, with the DXY index up as much as 1% at one point from its late yesterday lows.

Flows were modest with limited news. It looks to have been a night of profit-taking on USD shorts post-Fed moves, position squaring ahead of US GDP data tonight and risk of month-end volatility.

Some positive US data helped. June's US trade deficit came in narrower than expected, as exports rose 1.4% and imports fell 0.4% (no doubt helped by the general weakness in the USD over recent months). Meanwhile, inventories at US wholesalers rose 0.6% beating expectations and retailer's inventories also rose. It all supports Q2 GDP growth calculations. US Q2 GDP data is due overnight with an acceleration to an annualised pace of 2.5% expected from Q1's 1.4%.

After poking through 1.1770 late yesterday, EUR/USD sank all the way down toward 1.1650 before finding support. The pair opens this morning around 1.1680, down 0.5%.

GBP/USD followed a similar trajectory. The CBI UK retail trade survey was +22 in July, well exceeding market expectations of +10. But it was not enough to offset the USD rise. GBP/USD currently sits around 1.3060, down 0.4%.

USD/JPY rose to around 111.70 from under 110.80 late yesterday but unwound gains as volatility rose. The VIX

fear index spiked to around 11.50 before easing back. USD/JPY opens this morning around 111.20.

CHF remains under some downward pressure. CHF sits at the bottom of the leaderboard, despite the whiff of risk aversion. CHF fell another 1.5% against the USD overnight. EUR/CHF rose to its highest level since the SNB abandoned the floor back in 2015. This follows from SNB President Jordan's comments earlier in the week that the CHF remains 'significantly overvalued'.

The NZD has held up reasonably well against the revived USD, although still down 0.4% in the session. After testing up toward 0.7560 yesterday, a stronger USD sees NZD/USD back below 0.7500 this morning. News of Fonterra lifting its milk price early forecast yesterday to \$6.75 from \$6.50 previously had minimal impact on the NZD. While clearly positive news, adding circa \$500m more revenue into the NZ economy, it largely confirms the healthy international pricing over recent months. Indicators for next week's GDT auction are supportive.

NZD/AUD, around 0.9400 this morning, sits smack in the 0.9350 to 0.9450 range seen over the past week. A light local calendar looks no threat to this range today.

Global bond yields were mixed overnight, with yields generally a basis point or two lower in Europe but a little higher in the US. The US 10-year Treasury yield currently sits up about 2.5bps around 2.31%, gaining some support from the positive data and another push higher in oil prices (despite a higher USD). Brent crude oil prices are up another 1%, to around \$US51.50/bbl. Short end US yields have largely held their post Fed decline, seeing a steeper curve. The US 2-year Treasury yield is flat on the day.

Yesterday, local yields fell across the curve following offshore moves in the previous, Fed influenced, session. NZ 10-year swap yields closed down 4.5bps at 3.28%, while 2-year swap yields fell 1.5bps to close just under 2.21%.

Looking ahead, there is a fair bit of offshore data over the next 24 hours although most of it is unlikely to cause a stir. Most focus will be on Q2 US GDP, with the market anticipating a decent acceleration from a soft Q1. Inflation guides will come via CPI's for Japan and German along with US employment costs.

doug_steel@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
UK GfK Consumer Confidence	Jul	-11	-10	11:01
JN Natl CPI YoY	Jun	0.4	0.4	11:30
JN Natl CPI Ex Fresh Food, Energy YoY	Jun	-0.1	0	11:30
JN Retail Sales MoM	Jun	0.4	-1.6	11:50
EC Economic Confidence	Jul	110.8	111.1	21:00
GE CPI EU Harmonized MoM	Jul P	0.3	0.2	00:00
GE CPI EU Harmonized YoY	Jul P	1.4	1.5	00:00
US Employment Cost Index	2Q	0.6	0.8	00:30
US GDP Annualized QoQ	2Q A	2.5	1.4	00:30
US Core PCE QoQ	2Q A	0.7	2	00:30
US U. of Mich. Sentiment	Jul F	93.1	93.1	02:00
US Fed's Kashkari Speaks at Townhall Event				05:20

Source: Bloomberg, BNZ

Foreign Exchange					Equities					Commodities**					
Indicative overnight ranges (*)				Other FX		Major Indices				Price					
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7487	-0.4	0.7480	0.7550	CHF	0.9647	+1.5		S&P 500	2,473	-0.2	14.1	Oil (Brent)	51.55	+1.1
AUD	0.7966	-0.5	0.7957	0.8055	SEK	8.217	+0.6		Dow	21,770	+0.3	17.9	Oil (WTI)	49.06	+0.6
EUR	1.1675	-0.5	1.1650	1.1752	NOK	7.964	+0.9		Nasdaq	6,375	-0.7	24.0	Gold	1260.1	+0.9
GBP	1.3063	-0.4	1.3052	1.3159	HKD	7.810	+0.0		Stoxx 50	3,493	+0.1	16.5	HRC steel	628.0	-3.1
JPY	111.22	+0.0	110.94	111.71	CNY	6.743	-0.2		FTSE	7,443	-0.1	10.3	CRB	181.1	+0.9
CAD	1.2562	+0.9			SGD	1.359	+0.1		DAX	12,212	-0.8	18.3	Wheat Chic.	504.8	+0.4
NZD/AUD	0.9399	+0.1			IDR	13,318	-0.1		CAC 40	5,187	-0.4	16.6	Sugar	14.43	+1.4
NZD/EUR	0.6413	+0.1			THB	33.34	-0.2		Nikkei	20,080	+0.1	21.9	Cotton	70.50	+2.1
NZD/GBP	0.5731	+0.0			KRW	1,113	-0.8		Shanghai	3,250	+0.1	8.5	Coffee	136.0	+0.9
NZD/JPY	83.27	-0.4			TWD	30.19	-0.5		ASX 200	5,785	+0.1	4.1	WM powder	3270.0	-0.3
NZ TWI	79.12	-0.3			PHP	50.53	-0.2		NZX 50	7,712	+0.0	5.5	Australian Futures		
										3 year bond	98.02	-0.01			
										10 year bond	97.31	0.00			
Interest Rates					NZ Government Bonds					NZ Swap Yields					
Rates		Swap Yields			Benchmark 10 Yr Bonds		Last			Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	1.25	1.31	1.60	2.28	USD	2.31	0.03	NZGB 3 04/15/20	2.10	-0.03	1 year	2.03	-0.00		
AUD	1.50	1.69	1.92	2.89	AUD	2.69	-0.04	NZGB 6 05/15/21	2.25	-0.04	2 year	2.21	-0.02		
NZD	1.75	1.94	2.21	3.28	NZD	2.95	-0.03	NZGB 5 1/2 04/15/23	2.57	-0.04	5 year	2.75	-0.04		
EUR	0.00	0.06	-0.16	0.92	GER	0.54	-0.03	NZGB 2 3/4 04/15/25	2.81	-0.03	7 year	3.02	-0.05		
GBP	0.25	0.29	0.59	1.27	GBP	1.20	-0.03	NZGB 4 1/2 04/15/27	2.95	-0.03	10 year	3.28	-0.05		
JPY	-0.05	-0.01	0.04	0.26	JPY	0.07	-0.01	NZGB 3 1/2 04/14/33	3.30	-0.03	15 year	3.53	-0.05		
CAD	0.75	1.17	1.61	2.27	CAD	2.00	0.03	NZGB 2 3/4 04/15/37	3.52	-0.03					

* 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 07:52

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

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