

29 August 2017

Events Round-Up

US: Advance Goods Trade Balance, Jul: 65.1 vs -64.6 exp.

Good Morning

The USD remains under downward pressure during still thin trading in the Northern Hemisphere summer. Gold prices lift, while oil slips. Equities and bond yields are marginally lower.

Another slow news day, but the USD remains on the backfoot, extending last Friday's losses after the Central Bank symposium at Jackson Hole. The DXY US Dollar Index has lost another 0.5% overnight. At 92.2, it is getting that much closer to a key downside technical level just under 92 that, if broken, could see a further marked move downward. USD selling has been broad-based with no obvious drivers, but uncertainty around the NAFTA negotiations and impending US debt ceiling continue to do the greenback no favours.

European currencies continue to benefit. The EUR has pushed firmly higher, consolidating just under the 1.20 mark. EUR is up 0.4% on the day, opening this morning around 1.1970. GBP/USD is also up 0.4% at 1.2930.

The NZD was again largely a bystander in a low news session. NZD/USD trades near the top of its tight circa 30pip overnight range, up 0.2% at around 0.7260. Unsurprisingly, there was no reaction yesterday as Fonterra reporting its July milk collection was up 5.4% on a year earlier. Very little milk is made in NZ during winter. Spring production will be of a little more interest, as Fonterra noted conditions are currently challenging on-farm after continued wet weather.

AUD/USD was listless before a strong surge in gold prices overnight added some support. Gold prices lifted more than 1.5%, on no news other than a softening USD. Gold is on track to close above US\$1,300/oz for the first time this year. AUD/USD is up 0.4% at around 0.7960. This saw NZD/AUD continue to slide lower, easing 0.2% to currently sit around 0.9110. The pair is now not far from its year to date lows set back in March at just over 0.9070.

Hurricane Harvey continues to cause severe flooding across the Texas. The damage will take years to clean up. But while it will significantly dent activity in Texas, it is unlikely to cause material economic disruption across the US economy as a whole. Former Fed governor, Mark Olson, who dissented against an interest rate hike in 2005 to see if damage from Hurricane Katrina would hit the

national economy, said 'the devastation is significant, but it is localised.' The event is not expected to change the Fed's policy plans. There is unlikely to be major disruption to US crude oil production, with offshore production already restarting. Oil prices have dropped overnight, with West Texas Intermediate prices are down more than 2%, while Brent Crude is nearly 1% lower.

The US trade balance for July was the only data of any significance released overnight. The deficit widened to \$65.1b from \$64b in June. This was a little wider than the \$64.5b expected, but the deficit was smaller than the Q2 average suggesting trade could still make a positive contribution to Q3 economic growth. The data did nothing to arrest the downward pressure on the USD.

US 10 year Treasury yields traded in a tight 2.5bp range, currently sitting less than 1bp lower at just under 2.16%. Strong investor demand at a 5 year Treasury note auction saw 5 year yields down 1.5%, while US 30 year Treasury yields edged 1% higher. All minor moves ahead of data later in the week, including the PCE deflator on Thursday and payrolls and ISM surveys on Friday. That is, assuming the market ignores President Trump's tax announcement on Wednesday preferring, now, to see action rather than words.

There remains little movement in NZ rates. NZ 2-year swap closed up 0.5bp at 2.185% yesterday, showing no signs that it will break out of the tight 2.15% to 2.20% established range over the past few weeks.

In fact, there was next to no movement at all right across the entire NZ swap and bond curve yesterday. Indicative of the slumber, all tenors moved by no more than half a basis point. NZ 5 swap closed just over 2.64% and 10 swap at 3.13%.

Looking at the day ahead, consumer confidence readings are expected to remain very strong in both Germany and the US. Barring a major shock, nothing there to excite markets. Looks like being a quiet session.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	Jobless Rate	Jul	2.8	2.8	11:30
JN	Overall Household Spending YoY	Jul	0.7	2.3	11:30
GE	GfK Consumer Confidence	Sep	10.8	10.8	18:00
US	Conf. Board Consumer Confidence	Aug	120.4	121.1	02:00

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	0.7256	+0.2	0.7231	0.7263	CHF	0.9553	-0.2	S&P 500	2,442	-0.0	12.6	Oil (Brent)	52.03	-0.8
AUD	0.7964	+0.4	0.7926	0.7973	SEK	7.960	-0.1	Dow	21,790	-0.1	18.5	Oil (WTI)	46.76	-2.4
EUR	1.1974	+0.4	1.1917	1.1984	NOK	7.759	+0.1	Nasdaq	6,279	+0.2	20.3	Gold	1311.3	+1.5
GBP	1.2928	+0.4	1.2874	1.2943	HKD	7.823	+0.1	Stoxx 50	3,421	-0.5	13.6	HRC steel	621.0	+0.0
JPY	109.20	-0.1	109.05	109.41	CNY	6.614	-0.5	FTSE	7,401	-0.1	8.2	CRB	178.0	+0.1
CAD	1.2502	+0.2			SGD	1.353	-0.2	DAX	12,123	-0.4	14.5	Wheat Chic.	428.0	-1.7
NZD/AUD	0.9111	-0.2			IDR	13,340	-0.0	CAC 40	5,080	-0.9	14.4	Sugar	14.31	+1.9
NZD/EUR	0.6060	-0.2			THB	33.18	-0.2	Nikkei	19,450	-0.0	16.2	Cotton	70.33	+2.2
NZD/GBP	0.5613	-0.2			KRW	1,120	-0.7	Shanghai	3,363	+0.9	9.5	Coffee	131.4	+0.1
NZD/JPY	79.24	+0.1			TWD	30.13	-0.3	ASX 200	5,710	-0.6	4.4	WM powder	3250.0	+0.0
NZ TWI	76.13	-0.1			PHP	51.05	-0.1	NZX 50	7,827	-0.4	6.2	Australian Futures		
Interest Rates										3 year bond			97.98	-0.01
										10 year bond			97.34	-0.02
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	1.55	2.10	USD	2.16	-0.01	NZGB 3 04/15/20	2.04	0.01	1 year	2.02	0.01	
AUD	1.50	1.71	1.96	2.81	AUD	2.66	0.02	NZGB 6 05/15/21	2.18	0.01	2 year	2.19	0.00	
NZD	1.75	1.97	2.19	3.13	NZD	2.89	0.00	NZGB 5 1/2 04/15/23	2.47	0.00	5 year	2.65	0.00	
EUR	0.00	0.06	-0.18	0.82	GER	0.38	-0.00	NZGB 2 3/4 04/15/25	2.73	0.00	7 year	2.88	0.00	
GBP	0.25	0.28	0.56	1.14	GBP	1.05	0.00	NZGB 4 1/2 04/15/27	2.89	0.00	10 year	3.13	0.00	
JPY	-0.05	-0.03	0.02	0.21	JPY	0.01	-0.01	NZGB 3 1/2 04/14/33	3.28	0.00	15 year	3.39	0.01	
CAD	0.75	1.17	1.60	2.15	CAD	1.87	-0.01	NZGB 2 3/4 04/15/37	3.53	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 07:40

Source: Bloomberg

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