

29 June 2018



Events Round-Up

NZ: RBNZ official cash rate (%), Jun: 1.75 vs. 1.75 exp.

GE: GfK consumer confidence, Jul: 10.7 vs. 10.6 exp.

EC: Economic confidence, Jun: 112.3 vs. 112.0 exp.

GE: CPI EU harmonised (m/m%), Jun: 0.1 vs. 0.2 exp.

GE: CPI EU harmonised (y/y%), Jun: 2.1 vs. 2.1 exp.

US: GDP (third est. annualsd%), Q1: 2.0 vs. 2.2 exp.

Good Morning

The NZD has nudged down further in overnight trading, sustaining further losses since the RBNZ's OCR Review yesterday, while CAD is a notable outperformer. US equities and US 10-year yields are higher.

The NZD has pushed lower overnight to a fresh 2-year low of 0.6746 and currently sits close to that level. Multi-year or multi-quarter lows were reached for a number of currencies over the past 24 hours, mainly those of emerging markets and even the likes of AUD and GBP, as the USD recovery continued. In the case of the NZD, an added downward force was provided by the RBNZ's OCR review yesterday.

The market saw the Statement as slightly more dovish than the May MPS, with a deliberate change in wording in the first paragraph. The Bank commented that the OCR will remain at 1.75% "for now", previously "for some time". The market saw this as the Bank becoming more open to the idea that the OCR might need to be cut, should the recent trend of bad news continue. Some of these risks to the downside include the escalating trade tensions with associated risk of weaker global growth, the current soft patch in NZ growth and the sharp fall in business confidence since the election.

The market priced in a (very) small chance of a rate cut over the next six months for the first time since the end of the easing cycle, with mid-pricing for August to November OIS priced at 1.745%. We don't think that the Bank will cut rates, but the near term risks slightly favour a rate cut than a hike over that timeframe. The 2-year swap rate ended the day down 3bps to 2.18% while 5-year and 10-year swap rates were down by 4-5bps, although weaker US rates during the previous trading session were the key driver of the latter.

With key technical levels that have served the test of time

over the past 18 months broken, the next level on the radar for chartists is likely to be the May-2016 dip to 0.6676. If the bearish trend in emerging markets continues then the path of least resistance is a test of that level. A forthcoming holiday in Hawaii and applying Murphy's Law pretty much seals the deal.

The AUD reached 0.7330 last night, its lowest level in over a year, but the underperformance of the NZD sees the cross move back to early-June levels of below 0.92. CAD has been the strongest of the majors, supported by higher oil prices (WTI hitting a fresh high of \$74) and the OIS market prices in a greater chance of a rate hike next month (75%), following yesterday's comments by BOC Governor Poloz, who reaffirmed the Bank's tightening bias. NZD/CAD is down by over 1% to 0.8950.

EUR has managed to keep pace with the USD, seeing the currency flat at 1.1560, while GBP is weaker, falling to a fresh low of 1.3050 overnight. EU leaders have gathered in Brussels for their latest summit. EC President Juncker said that the EU is working on preparations for a no-deal Brexit in parallel with an ordinary and proper withdrawal agreement. He expressed frustration at the lack of progress, laying the blame at the UK government which has yet to agree on its future relationship with the EU. Given the lack of a UK consensus, no progress on a deal is expected to be made at the summit.

The BoE's Haldane, who dissented and voted for a rate hike at the last meeting, outlined his case for tighter policy. He saw the economy at full employment and developments that will add to cost and inflationary pressures, indicating that a rate increase now would "lower the risk of needing to tighten policy less gradually in future and cause a sharper adjustment in the economy."

The Fed's Bullard is usually ignored as he is an uber-dove but his comments to reporters after a speech were interesting. In talking about the escalating trade tensions he commented that "I would say I'm hearing full-throated angst...all aspects of the economy are affected, but agriculture is certainly being hit". He also noted that some suppliers were using the threat of new tariffs as a reason to raise prices, even when new tariffs would not directly target their business.

The US 10-year rate has traded a tight range of 2.82-2.85%, with the current level at the top of the range, against a backdrop of a better performance by US equities.

The economic calendar is full in the day ahead. Euro-area CPI figures and the US PCE deflators are the key releases. Annual German CPI inflation released overnight was in line with expectations and the market expects the euro-area figure to nudge up to the 2% mark, while core CPI inflation is expected to slip to 1.0%. With recent US CPI figures to guide expectations, the US PCE deflators shouldn't surprise.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ ANZ consumer confidence	Jun		121.0	10:00
NZ Building permits (m/m%)	May		-3.7	10:45
UK GfK consumer confidence	Jun	-7	-7	11:01
JN Industrial production (m/m%)	May	-1.0	0.5	11:50
GE Unemployment claims rate (%)	Jun	5.2	5.2	19:55
EC Core CPI (y/y%)	Jun	1.0	1.1	21:00
US Core PCE deflator (y/y%)	May	1.9	1.8	00:30
US Personal income (m/m%)	May	0.4	0.3	00:30
US Personal spending (m/m%)	May	0.4	0.6	00:30
US Chicago purchasing manager	Jun	60.0	62.7	01:45
CH Non-manufacturing PMI	Jun	54.8	54.9	Sat
CH Manufacturing PMI	Jun	51.7	51.9	Sat

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	0.6750	-0.6	0.6746	0.6783	CHF	0.9978	+0.1	S&P 500	2,715	+0.6	11.3	Oil (Brent)	77.63	+0.0
AUD	0.7347	+0.1	0.7330	0.7359	SEK	9.034	+0.6	Dow	24,243	+0.5	13.0	Oil (WTI)	73.30	+0.8
EUR	1.1556	+0.0	1.1527	1.1600	NOK	8.204	+0.1	Nasdaq	7,504	+0.8	20.4	Gold	1247.8	-0.7
GBP	1.3075	-0.3	1.3050	1.3111	HKD	7.848	+0.0	Stoxx 50	3,366	-0.9	-4.8	HRC steel	907.0	+0.1
JPY	110.58	+0.3	110.06	110.59	CNY	6.627	+0.3	FTSE	7,616	-0.1	3.1	CRB	198.9	-0.0
CAD	1.3270	-0.5			SGD	1.369	+0.1	DAX	12,177	-1.4	-3.7	Wheat Chic.	483.5	-1.0
NZD/AUD	0.9187	-0.8			IDR	14,394	+1.5	CAC 40	5,276	-0.9	0.4	Sugar	11.88	+1.4
NZD/EUR	0.5841	-0.7			THB	33.16	+0.3	Nikkei	22,270	-0.0	10.1	Cotton	84.93	-0.7
NZD/GBP	0.5163	-0.3			KRW	1,124	+0.6	Shanghai	2,787	-0.9	-12.6	Coffee	115.8	-1.4
NZD/JPY	74.64	-0.3			TWD	30.58	+0.3	ASX 200	6,215	+0.3	6.8	WM powder	3150.0	+0.0
NZD/CAD	0.8957	-1.1			PHP	53.51	-0.0	NZX 50	8,999	+0.0	17.1	Australian Futures		
NZ TWI	72.60	-0.5										3 year bond	97.915	-0.01
												10 year bond	97.36	-0.03
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last				Last			
USD	2.00	2.33	2.79	2.92	USD	2.85	0.02	NZGB 6 05/15/21	1.95	-0.03		1 year	2.07	-0.02
AUD	1.50	2.11	2.08	2.84	AUD	2.62	-0.01	NZGB 5 1/2 04/15/23	2.18	-0.03		2 year	2.18	-0.03
NZD	1.75	2.01	2.17	3.03	NZD	2.65	-0.04	NZGB 2 3/4 04/15/25	2.47	-0.03		5 year	2.57	-0.04
EUR	0.00	0.06	-0.17	0.88	GER	0.32	-0.00	NZGB 4 1/2 04/15/27	2.65	-0.04		7 year	2.80	-0.05
GBP	0.50	0.66	1.01	1.50	GBP	1.26	0.02	NZGB 3 04/20/29	2.85	-0.04		10 year	3.03	-0.05
JPY	-0.07	-0.04	0.04	0.25	JPY	0.04	-0.00	NZGB 3 1/2 04/14/33	3.03	-0.04		15 year	3.29	-0.05
CAD	1.25	1.17	2.20	2.52	CAD	2.14	0.04	NZGB 2 3/4 04/15/37	3.17	-0.04				

* 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 06:48

Source: Bloomberg

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