

29 May 2017

Events Round-Up

JN: CPI (y/y%), Apr: 0.4 vs. 0.4 exp.
 JN: CPI ex fresh food, energy (y/y%), Apr: 0.0 vs. 0.0 exp.
 US: GDP (ann. q/q%, second est.), Q2: 1.2 vs. 0.9 exp.
 US: Durable gds orders (m/m%), Apr P: -0.7 vs. -1.5 exp.
 US: Durables ex transport (m/m%), Apr P: -0.4 vs. 0.4 exp.
 US: U. of Mich. consumer sent., May F: 97.1 vs. 97.5 exp.

Good Morning

It was a quiet end to the week ahead of the long US weekend, with US equities flat, UST yields little changed and a flat USD. Economic data released had no impact on the market. They showed a modest upward revision to US Q1 GDP to a still-underwhelming annual rate of 1.2% and soft core durable goods orders.

The NZD capped off a good week, closing up 0.5% to just over 0.7060. For the week, the NZD was up around 2% against the USD, AUD, JPY and EUR and nearly 4% against GBP. There has been no good reason for the NZD's significant outperformance over the week other than we have been somewhat puzzled by its underperformance over recent months, so a recovery of sorts has been well overdue.

Last week's recovery saw some of the valuation gap against our short-term fair value estimate (around USD 0.75) close up. That model estimate has been nudged up recently by high levels of risk appetite (near a 3-year high) and the NZ commodity price index that feeds into it rising to a 2½-year high. It seems like the NZD played some catch up last week to these positive fundamental forces. For followers of technical analysis, the 0.71 mark represents an area of resistance.

The only notable price action on Friday was a slump in GBP, which fell by 1.1% to a few ticks over 1.28. NZD/GBP rose by 1.7% to 0.5520. It was a steady fall for GBP after the latest YouGov poll showed the lead of the Conservatives over Labour evaporating to just 5 percentage points, ahead of the 8 June election. The same poll showed consumer confidence falling to its lowest level since just after the Brexit referendum. While the polls weren't particularly reliable for the last UK general election, the market took notice, with some worried about the possibility of a smaller Conservative party working majority or even a hung Parliament. A weak government would worsen the UK's negotiating power

with EU leaders over the terms of Brexit from an already pretty bad starting point.

WTI oil prices showed a modest 1.8% recovery to USD 49.80 after the previous day's 4.8% plunge. This helped NOK and CAD show modest gains, but the AUD remained little changed around 0.7450. Sentiment wasn't helped by a fourth consecutive daily fall in iron ore prices, taking them to USD 57.90 on the Qingdao measure, their lowest level since October. Prices fell by 7.6% for the week. The soft AUD saw NZD/AUD rise 0.7% to 0.9485, its highest close since early February and what we think is now a fairer level, after the inexplicable weakness over recent months.

EUR likely felt some spillover effect from the weaker GBP, which saw EUR/USD close the week a little softer around 1.1180. Yen strength was less understandable, with Japan inflation still showing no pulse, with annual core inflation remaining around zero. USD/JPY nevertheless fell by 0.5% to 111.30.

The US Treasury market also showed little pulse, with the 10-year rate trading in a tight 2.23-2.25% range. Rate changes across the yield curve were less than 1bp. CFTC data showed further building of speculative long positions in 10-year futures, with the highest net long positioning in nearly 10 years. This suggests an element of comfort amongst traders that long bond yields are unlikely to rise much from here and might even fall, despite being at the lower end of the current year's trading range.

The local rates market showed a flattening bias on Friday, with the short end underpinned by expectations of unchanged monetary policy for some time and the long end influenced by falling Australian yields and a well-bid 20-year government bond tender. 10-yr government bond and swap rates ended the session down 4bps to 2.80% and 3.20% respectively, fresh lows for the year.

Expect a quiet day ahead, with the US, UK and China on holiday and only a couple of central bank speakers worth noting on the calendar. Trump is back home after his first overseas tour, facing further political pressure, so expect US politics to remain in the spotlight.

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Coming Up

	Period	Cons.	Prev.	NZT
US	Fed's Williams Speaks in Singapore			13:15
EC	Draghi Speaks at European Parliament Eco. Committee			01:00

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	0.7064	+0.5	0.7018	0.7077	CHF	0.9741	+0.1	S&P 500	2,416	+0.0	15.1		Oil (Brent)	52.15	+1.6
AUD	0.7448	-0.1	0.7429	0.7461	SEK	8.689	+0.0	Dow	21,080	-0.0	17.9		Oil (WTI)	49.80	+1.8
EUR	1.1183	-0.2	1.1161	1.1235	NOK	8.379	-0.2	Nasdaq	6,210	+0.1	25.9		Gold	1268.1	+0.9
GBP	1.2804	-1.1	1.2776	1.2890	HKD	7.793	+0.0	Stoxx 50	3,579	-0.2	16.3		HRC steel	613.0	+0.0
JPY	111.33	-0.5	110.88	111.54	CNY	6.856	-0.2	FTSE	7,548	+0.4	20.4		CRB	182.0	+0.5
CAD	1.3446	-0.3			SGD	1.382	-0.3	DAX	12,602	-0.2	22.5		Wheat Chic.	451.3	+1.6
NZD/AUD	0.9484	+0.7			IDR	13,294	+0.1	CAC 40	5,337	+0.3	18.2		Sugar	15.05	-3.9
NZD/EUR	0.6317	+0.9			THB	34.05	-0.3	Nikkei	19,687	-0.6	16.9		Cotton	77.09	-0.1
NZD/GBP	0.5517	+1.7			KRW	1,121	+0.4	Shanghai	3,110	+0.1	10.2		Coffee	131.2	+1.5
NZD/JPY	78.64	+0.1			TWD	30.11	+0.1	ASX 200	5,752	-0.7	6.4		WM powder	3150.0	-0.3
NZ TWI	76.59	+0.6			PHP	49.77	-0.2	NZX 50	7,442	+0.1	6.4		Australian Futures		
													3 year bond	98.3	0.00
													10 year bond	97.58	0.05
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	1.00	1.20	1.53	2.20	USD	2.25	-0.01	NZGB 3 04/15/20	2.09	-0.02	1 year	2.03	+0.00		
AUD	1.50	1.74	1.77	2.68	AUD	2.41	-0.03	NZGB 6 05/15/21	2.21	-0.04	2 year	2.22	-0.01		
NZD	1.75	1.97	2.22	3.20	NZD	2.80	-0.04	NZGB 5 1/2 04/15/23	2.48	-0.04	5 year	2.72	-0.03		
EUR	0.00	0.06	-0.16	0.79	GER	0.33	-0.03	NZGB 2 3/4 04/15/25	2.68	-0.05	7 year	2.96	-0.04		
GBP	0.25	0.30	0.53	1.12	GBP	1.01	-0.03	NZGB 4 1/2 04/15/27	2.80	-0.04	10 year	3.20	-0.04		
JPY	-0.05	-0.01	0.04	0.23	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.09	-0.04	15 year	3.47	-0.04		
CAD	0.50	1.17	1.06	1.75	CAD	1.45	-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 morn

Source: Bloomberg

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