

3 August 2017

## Events Round-Up

NZ: Unemployment rate (%), Q2: 4.8 vs. 4.8 exp.

NZ: Employment change (q/q%), Q2: -0.2 vs. 0.7 exp.

NZ: LCI pvt wages inc overtime (q/q%), Q2: 0.4 vs 0.4 exp.

AU: Building approvals (m/m%) Jun: 10.9 vs 1.0 exp.

US: ADP employment change, Jul: 178 vs. 190 exp.

## Good Morning

In currency markets the NZD has underperformed following yesterday's labour market data, while EUR has taken out another milestone, breaking through 1.19. Bond markets remain tightly bound.

After a two-week break it was tough getting up this morning, but a 5% gain in Apple shares has helped eased the emotional pain, paying for the holiday and sending the Dow index up through the 22,000 level. However, most sectors are slightly weaker and the S&P500 has spent most of the session in slightly negative territory.

The NZD is weaker on all the key crosses, sustaining much of the loss seen after the surprising dip in HLFS employment growth. The labour market reports weren't actually that bad, with other measures of employment and hours-worked showing solid gains, the unemployment rate falling to 4.8%, its lowest level since 2008, and wage growth showing hints of bottoming out in nominal terms. But with record long speculative positioning, the NZD is priced for perfection and there was nothing in the report to suggest that the RBNZ would move anytime soon from its neutral policy stance.

The NZD sits around 0.7435 this morning, after trading in a 0.7410-0.7460 (rounded) range overnight, still down from the 0.7470 pre-labour market data level. The AUD has managed to hold its ground against the USD at 0.7970, which sees NZD/AUD nudge down to 0.9330.

At the other end of the leaderboard, EUR spiked up through a new milestone of 1.19 on no news, before meeting resistance and now trades lower at 1.1860 but still up 0.5% for the day. This has sent NZD/EUR down nearly 1% for the day to 0.6270.

GBP has also been in favour ahead of BoE's policy meeting tonight. While no rate change is expected, since the last meeting a number of MPC members including the Governor have indicated a bias to tighten, so the minutes

will be scrutinised to get a sense of timing. GBP reached an 11-month high of 1.3250 and NZD/GBP is down 0.7% to below 0.5620.

EUR and GBP strength has seen the USD majors index continue to lose a little ground. In US economic news, an upward revision to June's ADP private payroll growth more than made up for the slightly softer than expected reading for July. In Fed-speak, uber-dove Bullard (non-voter) said in an interview that "Given the inflation outlook, which has deteriorated in 2017, I would not support further [rate] moves in the near term". Mester (a voter next year) supported the continuation of gradually raising rates although she lowered her estimate for the level of the unemployment rate which triggers inflation from 5.0% to 4.75%. The Fed's Williams speaks soon after the release of this daily.

Global bond markets have been largely uneventful although the release of the US Treasury department quarterly refunding report saw the US 10-year rate whip between 2.24-2.28% after its release. It currently sits at 2.26%, near the level at the NZ close. The Treasury said it would maintain the issuance of longer-term debt for the sixth straight quarter at \$62 billion and predicted future borrowing needs will increase. It would look to make a decision possibly over the next quarter on how to offset the Fed's planned balance sheet unwind. The Treasury department is still studying the possible introduction of ultra-long bonds, including seeking market feedback.

The softer NZ employment data supported lower rates across NZ's curve, as the market gently continues to push put the timing of the first rate hike. A hike by August 2018 is no longer fully priced and one now has to stretch out to September 2018 to see that. The 2-year swap rate fell by 2bps to 2.21% while the 10-year rate fell by 3bps to 3.29%. Unless the BoE throws a curve ball tonight, the rates market should remain quiet through to Friday night's US non-farm payrolls release.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance (\$m)	Jun	1800	2471	13:30
CH Caixin PMI services	Jul		51.6	13:45
GE Markit services PMI	Jul F	53.5	53.5	19:55
EC Markit services PMI	Jul F	55.4	55.4	20:00
UK Markit/CIPS services PMI	Jul	53.6	53.4	20:30
EC Retail sales (m/m%)	Jun	0.0	0.4	21:00
UK Bank of England Bank Rate (%)		0.25	0.25	23:00
UK BOE Asset Purchase Target (£bn)		435	435	23:00
US ISM non-manf. composite	Jul	56.9	57.4	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	0.7438	-0.4	0.7411	0.7459	CHF	0.9695	+0.4	S&P 500	2,476	-0.0	14.8	Oil (Brent)	52.38	+1.1
AUD	0.7969	+0.0	0.7952	0.7993	SEK	8.102	-0.1	Dow	22,010	+0.2	20.2	Oil (WTI)	49.61	+0.9
EUR	1.1859	+0.5	1.1817	1.1910	NOK	7.888	-0.5	Nasdaq	6,361	+0.0	23.8	Gold	1268.1	-0.4
GBP	1.3229	+0.2	1.3204	1.3251	HKD	7.817	+0.1	Stoxx 50	3,459	-0.5	19.0	HRC steel	620.0	-0.8
JPY	110.60	+0.2	110.29	110.98	CNY	6.722	+0.1	FTSE	7,411	-0.2	11.5	CRB	182.0	+0.7
CAD	1.2558	+0.2			SGD	1.359	+0.1	DAX	12,181	-0.6	20.1	Wheat Chic.	487.8	+0.0
NZD/AUD	0.9334	-0.4			IDR	13,324	-0.0	CAC 40	5,107	+0.1	18.0	Sugar	14.79	-0.6
NZD/EUR	0.6272	-0.9			THB	33.26	-0.0	Nikkei	20,080	+0.5	24.9	Cotton	71.75	+0.8
NZD/GBP	0.5622	-0.6			KRW	1,124	+0.2	Shanghai	3,285	-0.2	10.3	Coffee	140.4	+1.8
NZD/JPY	82.26	-0.2			TWD	30.23	+0.1	ASX 200	5,744	-0.5	5.1	WM powder	3210.0	-0.8
NZ TWI	78.34	-0.4			PHP	50.37	-0.1	NZX 50	7,748	+0.2	6.5	<b>Australian Futures</b>		
												3 year bond	98.04	0.00
												10 year bond	97.31	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	Last		
USD	1.25	1.31	1.60	2.22	USD	2.26	0.01	NZGB 3 04/15/20	2.08	-0.02	1 year	2.03	-0.01	
AUD	1.50	1.69	1.90	2.87	AUD	2.70	-0.01	NZGB 6 05/15/21	2.24	-0.02	2 year	2.21	-0.01	
NZD	1.75	1.97	2.21	3.29	NZD	3.01	-0.03	NZGB 5 1/2 04/15/23	2.57	-0.02	5 year	2.75	-0.02	
EUR	0.00	0.06	-0.16	0.89	GER	0.49	-0.01	NZGB 2 3/4 04/15/25	2.83	-0.03	7 year	3.02	-0.02	
GBP	0.25	0.29	0.62	1.29	GBP	1.24	0.02	NZGB 4 1/2 04/15/27	3.01	-0.04	10 year	3.29	-0.02	
JPY	-0.05	-0.01	0.04	0.26	JPY	0.08	0.00	NZGB 3 1/2 04/14/33	3.39	-0.03	15 year	3.55	-0.02	
CAD	0.75	1.17	1.59	2.22	CAD	1.93	-0.03	NZGB 2 3/4 04/15/37	3.62	-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 06:58

Source: Bloomberg

## Contact Details

<b>New Zealand</b>	Jason Wong	Senior Market Strategist	+(64 4) 924 7652
<b>Australia</b>	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
<b>London</b>	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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