

30 June 2017

Events Round-Up

JN: Retail sales (m/m%), May: -1.6 vs. -1.0 exp.
NZ: ANZ activity outlook (net %), Jun: 42.8 vs. 38.3 prev.
GE: GfK consumer confidence, Jul: 10.6 vs. 10.4 exp.
EC: Economic confidence, Jun: 111.1 vs. 109.5 exp.
GE: CPI EU Harmonised (m/m%), Jun P: 0.2 vs. 0.0 exp.
GE: CPI EU Harmonised (y/y%), Jun P: 1.5 vs. 1.3 exp.
US: GDP (annualised QoQ, third est.), Q1: 1.4 vs. 1.2 exp.

Good Morning

The coordinated, less dovish, tone of major central banks remains at the forefront of mind for investors, driving a good old-fashioned sell-off in the bond market and equities. In the risk-off environment, the NZD is the worst performing currency, alongside a still-soft USD.

Euro area data showed rising economic confidence to its highest level in a decade, while Germany CPI data were higher than expected. This sort of dataset supported ECB President Draghi's speech earlier in the week, where he sowed for the seed for an eventual removal of monetary policy accommodation. With a chorus of central banks now singing the same tune, this idea is gradually permeating through asset markets, a theme we suspect will continue in the months ahead. No panic has set in but we are seeing global bond yields grinding higher and equity markets grinding lower.

Following a chunky 1.3% fall in the Euro Stoxx 600, the S&P500 was down 1.4% when I started tapping away but is now down by "only" 0.9%. The VIX index spiked up to 15, but now sits just below 13. Losses have been driven by further rotation away from the tech sector and even as financial stocks have gained, with a more positive yield curve and the Fed's positive bank stress tests, which open the way for increased dividend payments.

The global bond market sell-off has been led by Europe, with the UK 10-year gilt up 10bps to 1.25% and German 10-year bunds up 8bps to 0.45%. US 10-year Treasuries have traded as high as 2.29%, but are currently 2.26%, up about 4bps from the NZ close. The yield curve has steepened again, with the 2-year rate up less than 2bps to 1.37%.

In currency markets, the NZD is leading the charge lower with the risk-off backdrop, down against all the major currencies, and the 0.2% fall against the USD to 0.7290

moderated to the extent that the USD itself is trading weakly. Yesterday afternoon the NZD found some support after the very positive ANZ business outlook survey, which highlighted underlying economic support for the economy, although rising capacity constraints look to be a curb on growth and are leading to higher inflationary pressure. The 0.7330 level the currency reached in the hour after that release proved to be the high for the day. Earlier in the week we noted the vulnerability of the NZD to the downside, given the surge in net speculative long positions to their highest level in four years. Fast-month accounts are likely trimming those positions, with lower risk appetite the order of the day.

The AUD hasn't suffered during this episode. Commodity prices have been supported by the weakness in the USD, while iron ore prices continue to show a significant recovery. They tacked on another 4% yesterday, following similar rises over the previous two days. The AUD is up 0.5% to 0.7675, dragging NZD/AUD down below 0.95. Both of our short-term fair value models currently show the 0.95 level to be a fair price.

Both EUR and GBP are up about 0.5% against the USD to 1.1430 and around 1.30 respectively. The BoE's Chief Economist Haldane told the BBC that the central bank needed to look seriously at raising rates, a repeat of his comments last week. OIS pricing shows a growing probability of a BoE rate increase as the year progresses, but the first full hike not priced until early next year. NZD/GBP is trading down to around 0.56, while NZD/EUR moved sub-0.64. Our highest conviction call is for further NZD/EUR weakness, with a likely move sub-60 just being a matter of time, either later this year or early next year.

The yen remains out of favour, with the BoJ likely needing to step up its JGB purchases to keep its 10-year rate close to zero amidst the global bond sell-off. Still, it has managed to strengthen against the USD a little, with USD/JPY back down to around 112. NZD/JPY is 0.5% lower at 81.6.

NZ rates remain at the mercy of global trends, with even the short end of the curve being impacted by the less dovish global central banks, despite the RBNZ's clear policy guidance of unchanged rates for some time. The 2-year swap rate has broken out of its 2.15-2.25% range to the upside, rising 3bps to 2.2750. The OIS curve has brought forward expectations of the first RBNZ hike. A May 2018 hike is now within a few basis points of being fully priced.

The NZ 10-year swap rate rose by 5bps to 3.26%. More savage moves were seen in the bond market, with NZ's 10-year rate rising 8.5bps to 2.875%, underperforming the US bond sell-off in the order of 5bps.

The economic calendar ahead is full. During the NZ market open, Japan CPI and China PMI data will be closely watched. US PCE deflator data are expected to be soft, as indicated by previously released CPI data. Euro-area CPI data are likely to be higher than the now out-of-date consensus, following stronger Germany CPI data.

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Coming Up

| | Period | Cons. | Prev. | NZT |
|--|--------|-------|-------|-------|
| NZ Building permits (m/m%) | May | | -7.6 | 10:45 |
| UK GfK consumer confidence | Jun | -7 | -5 | 11:01 |
| JN Overall household spending (y/y%) | May | -0.7 | -1.4 | 11:30 |
| JN Natl CPI (y/y%) | May | 0.5 | 0.4 | 11:30 |
| JN Natl CPI ex fresh food, energy (y/y%) | May | 0.1 | 0.0 | 11:30 |
| JN Industrial production (m/m%) | May P | -3.0 | 4.0 | 11:50 |
| CH Manufacturing PMI | Jun | 51 | 51.2 | 13:00 |
| CH Non-manufacturing PMI | Jun | | 54.5 | 13:00 |
| GE Unemployment claims rate (%) | Jun | 5.7 | 5.7 | 19:55 |
| UK GDP (q/q%) | 1Q F | 0.2 | 0.2 | 20:30 |
| EC CPI (y/y%) | Jun | 1.2 | 1.4 | 21:00 |
| EC CPI core (y/y%) | Jun | 1.0 | 0.9 | 21:00 |
| US Personal income (m/m%) | May | 0.3 | 0.4 | 00:30 |
| US Personal spending (m/m%) | May | 0.1 | 0.4 | 00:30 |
| US PCE core (m/m%) | May | 0.1 | 0.2 | 00:30 |
| US PCE Core (y/y%) | May | 1.4 | 1.5 | 00:30 |
| US Chicago purchasing manager | Jun | 58.0 | 59.4 | 01:45 |
| US U. of Mich. cons. sent. | Jun F | 94.5 | 94.5 | 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 | 0.7287 | -0.2 | 0.7276 | 0.7324 | CHF | 0.9568 | -0.3 | S&P 500 | 2,420 | -0.8 | 16.9 | Oil (Brent) | 47.26 | -0.1 |
| AUD | 0.7676 | +0.5 | 0.7651 | 0.7686 | SEK | 8.472 | -0.8 | Dow | 21,297 | -0.7 | 20.4 | Oil (WTI) | 44.78 | +0.1 |
| EUR | 1.1430 | +0.5 | 1.1388 | 1.1445 | NOK | 8.396 | -0.4 | Nasdaq | 6,123 | -1.8 | 28.1 | Gold | 1245.7 | -0.3 |
| GBP | 1.2991 | +0.5 | 1.2952 | 1.3015 | HKD | 7.806 | +0.0 | Stoxx 50 | 3,471 | -1.8 | 22.6 | HRC steel | 629.0 | -0.2 |
| JPY | 112.04 | -0.2 | 111.82 | 112.93 | CNY | 6.787 | -0.2 | FTSE | 7,350 | -0.5 | 15.6 | CRB | 171.9 | +0.5 |
| CAD | 1.3014 | -0.2 | | | SGD | 1.380 | -0.2 | DAX | 12,416 | -1.8 | 29.2 | Wheat Chic. | 496.0 | +4.9 |
| NZD/AUD | 0.9493 | -0.7 | | | IDR | 13,330 | -0.1 | CAC 40 | 5,154 | -1.0 | 22.9 | Sugar | 13.30 | +6.0 |
| NZD/EUR | 0.6375 | -0.7 | | | THB | 34.00 | +0.1 | Nikkei | 20,220 | +0.4 | 29.8 | Cotton | 74.00 | -0.3 |
| NZD/GBP | 0.5609 | -0.7 | | | KRW | 1,141 | -0.2 | Shanghai | 3,188 | +0.5 | 8.8 | Coffee | 126.4 | +1.6 |
| NZD/JPY | 81.64 | -0.5 | | | TWD | 30.40 | -0.1 | ASX 200 | 5,818 | +1.1 | 11.2 | W/M powder | 3000.0 | +0.0 |
| NZ TWI | 78.22 | -0.5 | | | PHP | 50.54 | -0.0 | NZX 50 | 7,685 | +0.8 | 11.4 | Australian Futures | | |
| | | | | | | | | | | | | 3 year bond | 98.03 | -0.05 |
| | | | | | | | | | | | | 10 year bond | 97.38 | -0.11 |
| Interest Rates | | | | | | | NZ Government Bonds | | | | NZ Swap Yields | | | |
| 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 | 1.30 | 1.59 | 2.24 | USD | 2.26 | 0.04 | NZGB 3 04/15/20 | 2.19 | 0.04 | 1 year | 2.06 | 0.02 | |
| AUD | 1.50 | 1.71 | 1.93 | 2.87 | AUD | 2.50 | 0.05 | NZGB 6 05/15/21 | 2.30 | 0.05 | 2 year | 2.28 | 0.03 | |
| NZD | 1.75 | 1.97 | 2.29 | 3.26 | NZD | 2.88 | 0.09 | NZGB 5 1/2 04/15/23 | 2.58 | 0.07 | 5 year | 2.79 | 0.05 | |
| EUR | 0.00 | 0.06 | -0.14 | 0.88 | GER | 0.45 | 0.08 | NZGB 2 3/4 04/15/25 | 2.77 | 0.08 | 7 year | 3.03 | 0.05 | |
| GBP | 0.25 | 0.30 | 0.69 | 1.34 | GBP | 1.25 | 0.10 | NZGB 4 1/2 04/15/27 | 2.88 | 0.09 | 10 year | 3.26 | 0.05 | |
| JPY | -0.05 | 0.01 | 0.04 | 0.25 | JPY | 0.06 | -0.00 | NZGB 3 1/2 04/14/33 | 3.21 | 0.09 | 15 year | 3.51 | 0.06 | |
| CAD | 0.50 | 1.17 | 1.39 | 2.02 | CAD | 1.70 | 0.08 | NZGB 2 3/4 04/15/37 | 3.43 | 0.09 | | | | |

* 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 06:57

Source: Bloomberg

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