

30 May 2017

## Events Round-Up

None.

## Good Morning

With the US, UK and China on holiday, market trading is thin and there has been little change in pricing.

With no data to speak of, focus turned to central bank speakers. In a speech in Asia yesterday, the Fed's Williams reaffirmed his view that a total of three interest-rate increases makes sense this year (including March's rate hike). While a non-voter, he is often seen to be aligned with Fed Chair Yellen, whose view in response to the recent run of softer US data remains unknown.

ECB President Draghi spoke to the European Parliament and he described the euro area's economic upswing as "increasingly solid" and broadening, and contrasted that with some caution about the global environment, particularly the threat of US protectionism. On monetary policy his view remained unchanged. "Overall, we remain firmly convinced that an extraordinary amount of monetary policy support, including through our forward guidance, is still necessary" if inflation is to rise in a sustainable way, he said, adding that "It's still very, very early to make us think we are going to change the monetary policy stance".

These comments come ahead of next week's ECB meeting, where it is widely expected that the current forward guidance that indicates rates could still fall further will be dropped. There was little market reaction to Draghi's comments either because of the holiday trading conditions, the market believes Draghi is bluffing, or that the market believes Draghi will change his mind next week after seeing the new set of inflation forecasts.

EUR is lower but only slightly, by around 0.1% to 1.1170. In other European news Italy's main parties are reported to be close to an agreement on a new voting law and former Prime Minister Matteo Renzi said he favours an election in autumn. Italy's 10-year government bond yield rose by 9bps to 2.17% going against grain of a 3bps drop in the German bunds.

We mention this European news as our call on a stronger EUR is based on the ECB gradually changing its language towards a less accommodative tone this year and that Italian elections are not held until about March next year. At face value, neither of those views was supported last night! We'll see.

There is little else to report. The NZD is hovering around 0.7060 after meeting some resistance near 0.7090 last night. The NZD is little changed on all the crosses except for a 0.4% fall in NZD/GBP to just below 0.55. GBP recovered some of Friday's losses that had been induced by polls showing a narrowing gap between the Conservatives and Labour Party, ahead of next week's UK election.

In data ahead, the key releases to focus on are US personal spending and the core PCE deflator. Spending is expected to rebound in April and if it doesn't then the risk of a June rate hike diminishes, sending the USD and rates lower. The core PCE deflator is expected to show annual inflation dropping to 1.5% yoy, moving further away from the US's 2% target, as indicated by previously released CPI data. An even bigger drop would give fuel to the doves on the FOMC committee to suggest holding back on a June rate increase.

The local rates market saw modest upward pressure on rates, reversing some of Friday's move. The 2-year swap rate closed up 2bps to 2.24%. This rate has traded in a very tight range around 2.20-2.25% since the RBNZ's MPS, and we expect that to continue over coming months. The 5-year swap rate rose by 2bps to 2.75% while the 10-year rate rose by 3bps to 3.23%. These rates lifted off their fresh lows for the year reached at the end of last week and we see the bias as more to the upside than downside over coming months. This assumes the Fed does in fact get another rate hike underway next month and the recent soft patch in US data proves to be temporary.

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

## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Building permits (m/m%)	Apr		-1.8	10:45
JN	Household spending (y/y%)	Apr	-0.7	-1.3	11:30
JN	Retail trade (y/y%)	Apr	2.2	2.1	11:50
AU	Building approvals (m/m%)	Apr	3.0	-13.4	13:30
EC	Economic confidence	May	110.0	109.6	21:00
GE	CPI EU Harmonised (y/y%)	May P	1.5	2.0	00:00
US	Personal income (m/m%)	Apr	0.4	0.2	00:30
US	Personal spending (m/m%)	Apr	0.4	0.0	00:30
US	PCE deflator (y/y%)	Apr	1.7	1.8	00:30
US	Core PCE (y/y%)	Apr	1.5	1.6	00:30
US	Conf. Board consumer confidence	May	119.8	120.3	02:00

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	0.7061	+0.0	0.7051	0.7089	CHF	0.9766	+0.3	S&P 500	2,416	+0.0	15.1	Oil (Brent)	52.29	+0.3	
AUD	0.7441	-0.1	0.7427	0.7450	SEK	8.701	+0.1	Dow	21,080	-0.0	17.9	Oil (WTI)	49.99	+0.4	
EUR	1.1170	-0.1	1.1164	1.1190	NOK	8.411	+0.4	Nasdaq	6,210	+0.1	25.9	Gold	1266.5	-0.1	
GBP	1.2842	+0.3	1.2822	1.2850	HKD	7.794	+0.0	Stoxx 50	3,579	-0.0	16.3	HRC steel	613.0	+0.0	
JPY	111.31	-0.0	111.23	111.40	CNY	6.856	-0.2	FTSE	7,548	+0.4	20.4	CRB	182.0	+0.5	
CAD	1.3445	-0.0			SGD	1.386	+0.3	DAX	12,629	+0.2	22.8	Wheat Chic.	451.3	+1.6	
NZD/AUD	0.9489	+0.0			IDR	13,320	+0.2	CAC 40	5,332	+0.2	18.1	Sugar	15.05	-3.9	
NZD/EUR	0.6321	+0.0			THB	34.11	+0.2	Nikkei	19,683	-0.0	15.3	Cotton	77.09	-0.1	
NZD/GBP	0.5498	-0.4			KRW	1,122	+0.1	Shanghai	3,110	+0.1	10.2	Coffee	131.2	+1.5	
NZD/JPY	78.60	-0.0			TWD	30.21	+0.3	ASX 200	5,707	-0.8	5.5	WM powder	3150.0	+0.0	
NZ TWI	76.59	+0.0			PHP	49.79	+0.0	NZX 50	7,413	-0.4	5.6	<b>Australian Futures</b>			
													3 year bond	98.29	0.00
													10 year bond	97.57	-0.01
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	0.00	NZGB 3 04/15/20	2.11	0.02	1 year	2.03	+0.00		
AUD	1.50	1.74	1.77	2.68	AUD	2.42	0.01	NZGB 6 05/15/21	2.23	0.02	2 year	2.24	+0.02		
NZD	1.75	1.98	2.24	3.23	NZD	2.84	0.04	NZGB 5 1/2 04/15/23	2.51	0.03	5 year	2.75	+0.02		
EUR	0.00	0.06	-0.16	0.78	GER	0.30	-0.03	NZGB 2 3/4 04/15/25	2.72	0.03	7 year	2.99	+0.02		
GBP	0.25	0.30	0.53	1.11	GBP	1.01	0.00	NZGB 4 1/2 04/15/27	2.84	0.04	10 year	3.23	+0.03		
JPY	-0.06	-0.02	0.04	0.23	JPY	0.04	-0.00	NZGB 3 1/2 04/14/33	3.13	0.04	15 year	3.50	+0.03		
CAD	0.50	1.17	1.04	1.71	CAD	1.40	-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 06:41

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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