

31 July 2017

Events Round-Up

JN: Natl CPI YoY, Jun: 0.4 vs 0.4 exp.

JN: Natl CPI Ex Fresh Food, En. YoY, Jun: 0.0 vs -0.1 exp.

JN: Retail Sales MoM, Jun: 0.2 vs 0.4 exp.

EC: Economic Confidence, Jul: 111.2 vs 110.8 exp.

GE: CPI EU Harmonized MoM, Jul P: 0.4 vs 0.3 exp.

GE: CPI EU Harmonized YoY, Jul P: 1.5 vs 1.4 exp.

US: Employment Cost Index, 2Q: 0.5 vs 0.6 exp.

US: GDP Annualized QoQ, 2Q A: 2.6 vs 2.7 exp.

US: Core PCE QoQ, 2Q A: 0.9 vs 0.7 exp.

US: U. of Mich. Sentiment, Jul F: 93.4 vs 93.2 exp.

US: Fed's Kashkari Speaks at Townhall Event

Good Morning

A USD downtrend remained intact last week with US data and politics on Friday doing little to arrest the bias for a softer USD near term. On Friday, US equities were mixed, while yields declined despite another rise in oil prices.

In Friday night's session, GDP outturns made their mark on currency performance. US data was solid but generally underwhelmed expectations. Q2 GDP rose 2.6% at an annualised pace, just under the official market estimate of 2.7% on the day, but after last week's trade and inventory data, some were probably looking for even more. Q1 was revised down to 1.2% from 1.4%. Overall, the pace of growth should keep downward pressure on the unemployment rate (watch this Friday's data), but inflation remains benign. The Q2 employment cost index came in a tick under expectations.

The failure to pass 'skinny' Obamacare repeal last week further highlights the challenges to the Trump administration's growth agenda and the firing of Trump's chief of staff, Priebus, is yet another sign of turmoil. Meanwhile, the US President has agreed to sign legislation to impose new sanctions on Russia.

It was all an excuse to keep selling the USD on Friday. Amid broad USD weakness, the DXY fell 0.6%. USD/JPY fell 0.5%, the pair opens this morning around 110.60.

France saw GDP above expectations while German inflation came in a tick over estimates supporting the notion that an ECB discussion of tapering is not far off. EUR/USD hit a fresh high since early 2015 and closed near its highs and just over 1.1750.

Sitting at the top off the major currency leaderboard on Friday was SEK and CAD, up 1.2% and 1.0% respectively, with both boosted by better than expected Q2 GDP prints (Sweden up 1.7% vs 0.9% expected and Canada up 0.6% vs 0.2% expected).

CHF extended its decline, the only major currency to fall against a weakening USD. We suspect the outlook for ECB policy relative to SNB is main underlying influence (the SNB reiterated the CHF is 'significantly overvalued' during the week). USD/CHF rose another 0.4% on Friday, taking gains to 2.4% for the week.

AUD and NZD both benefited from a weakening USD, rising 0.3% and 0.4% respectively in Friday's session and both up about 0.8% for the week. Commodity prices were mixed on Friday, with oil up but some others down. NZD opens this morning around 0.7500 and NZD/AUD around 0.9400.

Oil prices rose again on Friday night. Brent crude lifted above \$US52/bbl, punching through its 200dma and is now almost 10% up for the month.

Momentum in AUD and NZD has been strong, buoyed by commodity prices and benign risk environment. We are watching for any signs of fatigue. Regards data this week, in NZ eyes will be on this afternoon's ANZ business survey and more so Wednesday's Q2 labour market data while tomorrow's RBA decision and Friday's RBA Statement on Monetary Policy will garner attention in Australia. But with the USD in the currency driving seat at present, US data (PCE deflator, ISM and payrolls due this week) and politics will remain highly important.

US 10-year Treasury yields sank following the disappointing US GDP data on Friday, more than offsetting some upward influence of higher oil prices. After poking up above 2.33% ahead of the data, 10-year yields reversed course closing near session lows at around 2.29%; down about 2bps on the day. Overall there was a flattening bias as 2-year yields fell less than 1bp.

Locally, NZGB yields rose on Friday with a steepening bias as longer end yields rose around 3bps while shorter end yields rose around 1bp. Short end yields remain anchored by expectations of an on hold RBNZ. NZ swap rates were little changed. NZ 2-year swap closed just under 2.22%, up 1bp, and 5-year swap closed up nearly 1bp at 2.76%.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Building Permits MoM	Jun		7	10:45
JN Industrial Production MoM	Jun P	1.5	-3.6	11:50
NZ ANZ Business Confidence	Jul		24.8	13:00
CH Manufacturing PMI	Jul	51.5	51.7	13:00
CH Non-manufacturing PMI	Jul		54.9	13:00
EC Unemployment Rate	Jun	9.2	9.3	21:00
EC CPI Estimate YoY	Jul	1.2	1.3	21:00
EC CPI Core YoY	Jul A	1.1	1.1	21:00
US Chicago Purchasing Manager	Jul	59	65.7	01:45
US Pending Home Sales MoM	Jun	1	-0.8	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	0.7514	+0.4	0.7461	0.7525	CHF	0.9687	+0.4	S&P 500	2,472	-0.1	13.7	Oil (Brent)	52.52	+2.0
AUD	0.7987	+0.3	0.7937	0.8007	SEK	8.120	-1.2	Dow	21,830	+0.2	18.4	Oil (WTI)	49.71	+1.4
EUR	1.1751	+0.6	1.1671	1.1764	NOK	7.913	-0.5	Nasdaq	6,375	-0.1	23.5	Gold	1268.4	+0.7
GBP	1.3136	+0.5	1.3062	1.3152	HKD	7.810	+0.0	Stoxx 50	3,468	-0.7	15.9	HRC steel	625.0	+0.0
JPY	110.68	-0.5	110.55	111.33	CNY	6.737	-0.1	FTSE	7,368	-1.0	9.6	CRB	182.1	+0.5
CAD	1.2433	-1.0			SGD	1.357	-0.2	DAX	12,163	-0.4	17.7	Wheat Chic.	506.0	+0.2
NZD/AUD	0.9408	+0.1			IDR	13,324	+0.0	CAC 40	5,131	-1.0	15.6	Sugar	14.37	-0.4
NZD/EUR	0.6394	-0.3			THB	33.38	+0.2	Nikkei	19,960	-0.6	20.5	Cotton	70.22	-0.4
NZD/GBP	0.5720	-0.2			KRW	1,122	+0.8	Shanghai	3,253	+0.1	9.2	Coffee	137.9	+1.4
NZD/JPY	83.16	-0.2			TWD	30.24	+0.2	ASX 200	5,703	-1.4	2.5	WM powder	3270.0	-0.3
NZ TWI	79.18	+0.2			PHP	50.54	+0.0	NZX 50	7,640	-0.9	4.0	Australian Futures		
Interest Rates												3 year bond 98.02 -0.01		
												10 year bond 97.31 0.02		
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	1.31	1.59	2.25	USD	2.29	-0.02	NZGB 3 04/15/20	2.11	0.00	1 year	2.03	-0.00	
AUD	1.50	1.69	1.92	2.87	AUD	2.68	-0.01	NZGB 6 05/15/21	2.26	0.01	2 year	2.22	0.01	
NZD	1.75	1.93	2.22	3.29	NZD	2.98	0.03	NZGB 5 1/2 04/15/23	2.58	0.01	5 year	2.76	0.01	
EUR	0.00	0.06	-0.15	0.94	GER	0.54	0.01	NZGB 2 3/4 04/15/25	2.83	0.02	7 year	3.03	0.01	
GBP	0.25	0.29	0.59	1.28	GBP	1.22	0.02	NZGB 4 1/2 04/15/27	2.98	0.03	10 year	3.29	0.01	
JPY	-0.05	-0.01	0.04	0.26	JPY	0.08	0.00	NZGB 3 1/2 04/14/33	3.34	0.04	15 year	3.54	0.02	
CAD	0.75	1.17	1.64	2.29	CAD	2.03	0.03	NZGB 2 3/4 04/15/37	3.56	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 05:25

Source: Bloomberg

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