

31 May 2017

Events Round-Up

NZ: Building permits (m/m%), Apr: -7.6 vs. -1.8 prev.
JN: Household spending (y/y%), Apr: -1.4 vs. -0.9 exp.
JN: Retail trade (y/y%), Apr: 3.2 vs. 2.3 exp.
AU: Building approvals (m/m%), Apr: 4.4 vs. 3.0 exp.
EC: Economic confidence, May: 109.2 vs. 110.0 exp.
GE: CPI EU Harmonised (y/y%), May P: 1.4 vs. 1.5 exp.
US: Personal income (m/m%), Apr: 0.4 vs. 0.4 exp.
US: Personal spending (m/m%), Apr: 0.4 vs. 0.4 exp.
US: PCE deflator (y/y%), Apr: 1.7 vs. 1.7 exp.
US: Core PCE (y/y%), Apr: 1.5 vs. 1.5 exp.
US: Conf. Board cons. confid., May: 117.9 vs. 119.8 exp.

Good Morning

There has been plenty of newsflow to digest but the low volatility environment has continued after the long weekend in the US and UK, with only modest price changes across equities, bonds and currency markets.

The S&P500 has spent the session in negative territory so far, albeit is currently only down 0.1%, weighed down by the energy sector as oil prices remain soft. Media reports have highlighted Amazon breaking through the \$1000 mark for the first time.

The USD has been on a (modest) downward trend since last evening, with the major currency TWI index down about 0.2%. US consumer confidence was weaker than expected, slipping off recent highs, while personal spending data were in line, confirming that Q2 will probably show a decent rebound in consumer spending after a soft Q1. The annual core PCE deflator slipped to 1.5% y/y as expected, the weakest annual inflation in nearly eighteen months.

Despite inflation heading in the opposite direction to the Fed's target, the market still has high conviction that the Fed will hike rates next month, with general agreement that some of the inflation weakness reflects one-off factors. Our calculations suggest the market is pricing in about an 84% chance of a 25bps rate increase next month, but beyond June the outlook becomes murkier and the Fed funds curve only has a modest upward slope. Fed Governor Brainard, a known dove and permanent voter noted in a speech that "if the soft inflation data persist, that would be concerning and, ultimately, could

lead me to reassess the appropriate path of policy." We think those thoughts are probably in line with much of the FOMC committee and further hikes beyond June will likely be dependent on inflation indicators recovering.

German inflation slowed by more than expected, increasing the probability that euro-area inflation data due tonight will also undershoot expectations. EUR fell to a fresh low of 1.1110 after the report, but then found support. After staging a recovery, it was boosted further after Reuters reported that ECB policymakers were set to upgrade their economic risk assessment at next week's meeting. EUR now sits 0.2% higher for the session at 1.1190.

The softer USD trend has been reflected in the NZD drifting higher since last evening and is close to its highs for the session at 0.71. If we look at the currency leaderboard, the NZD sits at the top, with a 0.6% increase over the day. There's no particular reason for its outperformance and it follows the 2+ % lift last week on all the crosses. A closing of short positions might be a factor. Despite our fair value estimate sitting around 0.75, we think that the NZD will find the going tougher, with 0.71 on the charts being an area of technical resistance.

The Yen is number two on the leaderboard, quite a feat considering UST yields are lower. Japan's labour market data got some attention yesterday, with some measures of labour market tightness like the job-to-applicant ratio at a multi-decade low and the unemployment rate sits at just 2.8%. Real economic data have been fairly good in Japan of late, but inflation remains elusive, which suggests the BoJ will have to maintain its current policy stance of keeping rates close to zero. USD/JPY is down 0.5% to 110.75, a reflection of both USD weakness and yen strength.

On currencies, there isn't much else to report. NZD/AUD is up through 0.95, even as AUD/USD has recovered to 0.7465.

The US 10-year Treasury rate was in a tight range, but yields have slipped following the economic data noted above and Brainard's comments have cemented the move. The current yield is around 2.21%, down 3bps for the day. With CFTC data showing the largest net long positioning in US10s futures in nearly 10 years, we'd argue that a lot of the news on soft growth and inflation is currently in the price and risks are asymmetrically skewed to the upside for yields on a 1-3 month view.

NZ rates were little changed yesterday, with a slight downside bias to the longer end of the curve. Expect a further nudge lower today. The RBNZ's financial stability report is released at 9am but this rarely moves the market. Risks in the dairy sector have faded, but the housing market likely still remains an area of concern for the Bank. Elsewhere, it's a full economic calendar as the table below shows.

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Coming Up

	Period	Cons.	Prev.	NZT	
NZ	RBNZ Publishes Financial Stability Report			09:00	
UK	GfK consumer confidence	May	-8	-7	11:01
JN	Industrial production (y/y%)	Apr P	6.1	3.5	11:50
NZ	ANZ activity outlook (net %)	May		37.7	13:00
CH	Manufacturing PMI	May	51.0	51.2	13:00
CH	Non-manufacturing PMI	May		54	13:00
GE	Unemployment Rate (%)	May	5.7	5.8	19:55
EC	Unemployment Rate	Apr	9.4	9.5	21:00
EC	CPI (y/y%)	May	1.5	1.9	21:00
EC	Core CPI (y/y%)	May	1.0	1.2	21:00
US	Fed's Kaplan speaks in New York				00:00
US	Chicago Purchasing Manager	May	57	58.3	01:45
US	Pending home sales (m/m%)	Apr	0.4	-0.8	02:00
NZ	QV House Prices YoY	May		11.1	05:00

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	0.7099	+0.6	0.7040	0.7100	CHF	0.9746	-0.3	S&P 500	2,413	-0.1	15.0	Oil (Brent)	51.94	-0.7	
AUD	0.7466	+0.3	0.7423	0.7468	SEK	8.720	+0.2	Dow	21,037	-0.2	17.7	Oil (WTI)	49.71	-0.2	
EUR	1.1188	+0.2	1.1110	1.1205	NOK	8.431	+0.2	Nasdaq	6,202	-0.1	25.7	Gold	1261.8	-0.5	
GBP	1.2857	+0.1	1.2804	1.2888	HKD	7.793	-0.0	Stoxx 50	3,561	-0.5	15.2	HRC steel	613.0	+0.0	
JPY	110.76	-0.5	110.67	111.24	CNY	6.856	-0.2	FTSE	7,527	-0.3	20.0	CRB	181.3	-0.4	
CAD	1.3461	+0.1			SGD	1.384	-0.1	DAX	12,599	-0.2	21.9	Wheat Chic.	444.0	-1.6	
NZD/AUD	0.9508	+0.3			IDR	13,323	+0.0	CAC 40	5,306	+0.1	17.1	Sugar	15.02	-0.2	
NZD/EUR	0.6345	+0.4			THB	34.12	+0.0	Nikkei	19,678	-0.0	14.2	Cotton	77.26	+0.2	
NZD/GBP	0.5522	+0.5			KRW	1,125	+0.3	Shanghai	3,110	+0.1	10.2	Coffee	132.1	+0.7	
NZD/JPY	78.63	+0.2			TWD	30.21	-0.0	ASX 200	5,718	+0.2	6.3	WM powder	3150.0	+0.0	
NZ TWI	76.90	+0.5			PHP	49.78	-0.0	NZX 50	7,412	-0.0	5.3	Australian Futures			
													3 year bond	98.3	-0.01
													10 year bond	97.58	0.01
Interest Rates						NZ Government Bonds				NZ Swap Yields					
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last				Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	1.00	1.20	1.51	2.16	USD	2.21	-0.03	NZGB 3 04/15/20	2.10	-0.01	1 year	2.03	-0.00		
AUD	1.50	1.74	1.75	2.67	AUD	2.39	-0.02	NZGB 6 05/15/21	2.22	-0.02	2 year	2.24	+0.01		
NZD	1.75	1.97	2.24	3.23	NZD	2.82	-0.02	NZGB 5 1/2 04/15/23	2.50	-0.01	5 year	2.74	-0.00		
EUR	0.00	0.06	-0.16	0.76	GER	0.29	-0.01	NZGB 2 3/4 04/15/25	2.70	-0.01	7 year	2.99	-0.00		
GBP	0.25	0.30	0.51	1.09	GBP	0.99	-0.02	NZGB 4 1/2 04/15/27	2.82	-0.02	10 year	3.23	-0.01		
JPY	-0.06	-0.02	0.04	0.23	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.11	-0.02	15 year	3.49	-0.01		
CAD	0.50	1.17	1.04	1.74	CAD	1.42	0.01								

* 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 06:51

Source: Bloomberg

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