

4 August 2017

## Events Round-Up

AU: Trade balance (\$m), Jun: 856 vs. 1800 exp.  
 CH: Caixin PMI services, Jul: 51.5 vs. 51.6 prev.  
 UK: Markit/CIPS services PMI, Jul: 53.8 vs. 53.6 exp.  
 EC: Retail sales (m/m%), Jun: 0.5 vs. 0.0 exp.  
 UK: Bank of England Bank Rate (%): 0.25 vs. 0.25 exp.  
 UK: BOE Asset Purchase Target (£bn): 435 vs. 435 exp.  
 US: ISM non-manf. Composite, Jul: 53.9 vs. 56.9 exp.

## Good Morning

A less hawkish than expected Bank of England has put GBP under downward pressure and driven global bond rates lower, otherwise market movements have been modest ahead of tonight's US employment report.

The Bank of England kept its policy settings unchanged but downgraded growth and wage forecasts. The vote for no change was 6-2 (previously 5-3), with one of the prior dissenters having left the MPC. Some expected Chief Economist Haldane to join the dissenters after he previously indicated that a rate hike "would be prudent" moving into the second half, but he didn't. The MPC minutes lacked hawkish comments that justified market pricing of a rate hike this year being almost a near-even chance. Governor Carney offered a sobering outlook for the economy, with Brexit uncertainty risks still overhanging and EU negotiations the "most important" factor determining the fate of the economy.

GBP fell by about 1% after the announcement and has sustained that fall, seeing it down 0.7% for the day at 1.3130, after it had earlier nudged up to an 11-month high. The OIS curve shows 9bps of rate hikes before the end of the year priced into the curve, down from 12bps, while 10-year gilt yields fell by 9bps to 1.15%. This helped trigger lower yields across Germany (down 3bps to 0.45%) and the US.

The US 10-year rate is down 4bps to 2.23%, with much of the fall coming in the immediate aftermath of the BoE decision. The US non-manufacturing ISM came in well below market expectations, falling to its weakest level in nearly a year and this helped sustain the downward move in rates. All eyes now turn to tonight's non-farm payrolls report, which is expected to see enough growth in employment (+180k) to shift the unemployment rate down a touch, while average hourly earnings are expected to rise by 0.3% (previously 0.2%). With the 10-year rate

trading at the bottom of its range for the past month and long speculative positioning in the futures market, the risk to yields is skewed slightly to the upside on any shock result.

Lower global yields sees JPY in favour and the top of the daily leaderboard, with USD/JPY down 0.5% and threatening to break down through 110 support. The USD overall is close to some key technical levels for the DXY, BBDXY and TWI-majors indices and they are managing to hold their ground ahead of the employment report. Technically, a break to the downside for the USD could potentially unleash another big wave of USD selling but if the levels hold then that could signal a near-term bottoming out phase.

Elsewhere, currency movements have been modest. AUD saw some selling pressure in early Asian trading yesterday and has managed to lift a little overnight to 0.7945. NZD saw the same pattern, but a nice recovery since the local close sees it back around 0.7440, up slightly for the day and NZD/AUD higher at 0.9365.

EUR has nudged higher overnight to 1.1870, helped by the soft US ISM release and it is also worth noting that the Czech central bank raised rates for the first time since 2008. That's another central bank we can add to the list of commencing a tightening cycle.

Local rates had a downward bias yesterday, with the 2-year swap rate down 2bps to 2.19% and the 10-year rate down 4bps to 3.24%. The former is at the lower end of its recent range ahead of next week's MPS, where expectations are centred on the RBNZ delivering a neutral statement with some dovish overtones, reflecting the likely downward revision to inflation forecasts. The RBA's Statement on Monetary Policy is released this afternoon, where analysts will be watching to see if the RBA's growth and inflation forecasts are downgraded a touch, given the stronger AUD, and if the RBA expands on its AUD rhetoric relative to Tuesday's announcement.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	Retail sales (m/m%)	Jun	0.2	0.6	13:30
AU	Retail sales ex inflation (q/q%)	Q2	1.2	0.1	13:30
AU	RBA Statement on Monetary Policy				13:30
GE	Factory orders (m/m%)	Jun	0.5	1	18:00
US	Change in nonfarm payrolls ('000)	Jul	180	222	00:30
US	Unemployment rate (%)	Jul	4.3	4.4	00:30
US	Average hourly earnings (m/m%)	Jul	0.3	0.2	00:30

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	0.7439	+0.1	0.7391	0.7444	CHF	0.9699	-0.1	S&P 500	2,474	-0.2	14.3	Oil (Brent)	52.06	-0.6
AUD	0.7943	-0.3	0.7918	0.7957	SEK	8.105	+0.1	Dow	22,035	+0.1	20.1	Oil (WTI)	49.07	-1.1
EUR	1.1867	+0.1	1.1831	1.1893	NOK	7.906	+0.1	Nasdaq	6,347	-0.2	23.0	Gold	1267.5	-0.3
GBP	1.3133	-0.7	1.3113	1.3267	HKD	7.819	+0.0	Stoxx 50	3,466	+0.2	19.1	HRC steel	620.0	-0.8
JPY	110.15	-0.5	109.95	110.75	CNY	6.717	-0.1	FTSE	7,475	+0.9	12.7	CRB	180.6	-0.7
CAD	1.2579	+0.1			SGD	1.359	+0.0	DAX	12,155	-0.2	19.5	Wheat Chic.	485.0	-0.7
NZD/AUD	0.9365	+0.5			IDR	13,327	+0.0	CAC 40	5,130	+0.3	18.7	Sugar	14.31	-3.2
NZD/EUR	0.6269	+0.0			THB	33.26	+0.0	Nikkei	20,029	-0.3	23.2	Cotton	71.55	-0.7
NZD/GBP	0.5664	+0.8			KRW	1,129	+0.4	Shanghai	3,273	-0.4	9.7	Coffee	140.2	-0.1
NZD/JPY	81.94	-0.4			TWD	30.22	-0.0	ASX 200	5,735	-0.2	4.7	WM powder	3230.0	+0.0
NZ TWI	78.44	+0.2			PHP	50.27	-0.2	NZX 50	7,754	+0.1	6.2	<b>Australian Futures</b>		
												3 year bond	98.07	0.01
												10 year bond	97.36	0.06
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			
USD	1.25	1.31	1.59	2.20	USD	2.23	-0.04	NZGB 3 04/15/20	2.05	-0.02	1 year	2.02	-0.01	
AUD	1.50	1.69	1.88	2.82	AUD	2.67	-0.04	NZGB 6 05/15/21	2.20	-0.03	2 year	2.19	-0.02	
NZD	1.75	1.96	2.19	3.24	NZD	2.96	-0.05	NZGB 5 1/2 04/15/23	2.53	-0.03	5 year	2.71	-0.04	
EUR	0.00	0.06	-0.16	0.87	GER	0.45	-0.03	NZGB 2 3/4 04/15/25	2.79	-0.04	7 year	2.98	-0.04	
GBP	0.25	0.29	0.58	1.21	GBP	1.15	-0.09	NZGB 4 1/2 04/15/27	2.96	-0.04	10 year	3.24	-0.05	
JPY	-0.05	-0.02	0.04	0.25	JPY	0.07	-0.01	NZGB 3 1/2 04/14/33	3.34	-0.05	15 year	3.50	-0.05	
CAD	0.75	1.17	1.60	2.21	CAD	1.91	-0.03	NZGB 2 3/4 04/15/37	3.57	-0.05				

\* 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 06:43

Source: Bloomberg

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