

7 August 2017

Events Round-Up

- AU: Retail sales (m/m%), Jun: 0.3 vs. 0.2 exp.
- AU: Retail sales ex inflation (q/q%), Q2: 1.5 vs. 1.2 exp.
- GE: Factory orders (m/m%), Jun: 1.0 vs. 0.5 exp.
- US: Chg in nonfarm payrolls ('000), Jul: 209 vs. 180 exp.
- US: Unemployment rate (%), Jul: 4.3 vs. 4.3 exp.
- US: Average hourly earnings (m/m%), Jul: 0.3 vs. 0.3 exp.

Good Morning

The USD and UST yields rose after another robust US employment report. Non-farm payrolls rose by slightly more than expected, a second consecutive month of showing a gain of more than 200k, with the tick down in the unemployment rate and tick up in average hourly earnings in line. It was effectively another goldilocks report with strong employment not leading to significant wage inflation – the 2.5% annual gain in wages was close to its average over the past couple of years.

Expectations of the Fed hiking this year ticked up, but not by much, with the market still reluctant to price in much tightening over the next year. Attention now turns to US CPI data at the end of the week. Less than a full rate hike is priced for the next 12 months, with about 10bps priced by the end of this year, up 1bp on the day. The yield curve steepened, with 2-year Treasuries up 1bp to 1.35% and the 10-year rate up 4bps to 2.26%, having traded as high as 2.29%.

The USD showed broadly based gains, rising 0.6-0.8% for the day across the suite of dollar indices, as traders scrambled to cover short positions. Additional gains came after White House economic adviser Gary Cohn said that he's "confident" tax reform can be accomplished by year-end. He also said that the Republican tax plan will have incentives to repatriate corporate cash.

Of the majors, the NZD fell by the least, closing the week at 0.7415, down 0.3% for the day. This took the cumulative fall for the week to 1.3%, with the NZD showing broadly based falls for the week after looking

over-bought towards the end of July. CFTC data showed net long speculative positioning remaining close to a record high, skewing any risk from here to the downside. Thursday's Monetary Policy Statement isn't expected to lend any support to the NZD as the RBNZ will likely downgrade the inflation outlook and provide no support for current market pricing of rate hikes from next year.

NZD/AUD was flat for the day at 0.9350. The AUD received a small boost after the RBA's Statement on Monetary Policy, with the RBA slightly more upbeat on the outlook for the Australian economy, revising up its medium-term growth forecasts despite incorporating a stronger AUD. However, market reaction soon washed out and the day's low for the cross around 0.9320 wasn't sustained for very long.

EUR and GBP were the worst of the majors, falling around 0.8% for the day to 1.177 and 1.3040 respectively. Positioning in EUR has been pretty one-sided to the long side of late, so the stronger US data provided a good excuse for some profit-taking. NZD/EUR closed the week close to 0.63 and NZD/GBP rose to 0.5685.

The NZ rates curve showed a clear flattening bias on Friday, but much of that should unwind today. The 2-year swap rate closed down 1bp to 2.18% and the 10-year swap rate closed down 6bps to 3.19%. The short end of the curve is bound to remain in a holding pattern until Thursday's RBNZ Monetary Policy Statement. Short rates have moved to the bottom end of the range for this year and the RBNZ's "on hold" for an extended period view should support that move.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	RBNZ survey 2-yr inflation exp.	Q3		2.17	15:00
GE	Industrial production (m/m%)	Jun		1.2	18:00
CH	Foreign Reserves (\$bn)	Jul	3075	3057	
US	Fed's Bullard Speaks on U.S. Economy in Nashville, TN				03:45
US	Fed's Kashkari Speaks in Bloomington, MN				05:25

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	0.7415	-0.3	0.7393	0.7455	CHF	0.9727	+0.4	S&P 500	2,477	+0.2	13.5	Oil (Brent)	52.42	+0.6
AUD	0.7929	-0.4	0.7891	0.7980	SEK	8.146	+0.6	Dow	22,093	+0.3	19.1	Oil (WTI)	49.58	+1.1
EUR	1.1773	-0.8	1.1728	1.1889	NOK	7.944	+0.5	Nasdaq	6,352	+0.2	21.7	Gold	1258.3	-0.7
GBP	1.3040	-0.7	1.3024	1.3164	HKD	7.820	+0.0	Stoxx 50	3,507	+1.2	17.9	HRC steel	619.0	-0.2
JPY	110.69	+0.6	110.01	111.05	CNY	6.729	+0.2	FTSE	7,512	+0.5	10.6	CRB	180.7	+0.0
CAD	1.2645	+0.5			SGD	1.361	+0.2	DAX	12,298	+1.2	18.6	Wheat Chic.	482.5	-0.5
NZD/AUD	0.9352	-0.0			IDR	13,316	-0.1	CAC 40	5,203	+0.4	18.0	Sugar	14.14	-1.2
NZD/EUR	0.6298	+0.6			THB	33.29	+0.1	Nikkei	19,952	-0.4	22.7	Cotton	70.99	-0.8
NZD/GBP	0.5686	+0.5			KRW	1,125	-0.3	Shanghai	3,262	-0.3	9.6	Coffee	140.2	-0.0
NZD/JPY	82.08	+0.2			TWD	30.16	-0.2	ASX 200	5,721	-0.3	4.1	WM powder	3230.0	+0.0
NZ TWI	78.36	-0.1			PHP	50.24	-0.1	NZX 50	7,746	-0.1	6.0	Australian Futures		
												3 year bond	98.05	-0.02
												10 year bond	97.35	-0.03
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	1.61	2.23	USD	2.26	0.04	NZGB 3 04/15/20	2.02	-0.01	1 year	2.02	-0.00	
AUD	1.50	1.69	1.90	2.84	AUD	2.62	-0.05	NZGB 6 05/15/21	2.17	-0.02	2 year	2.18	-0.01	
NZD	1.75	1.95	2.18	3.19	NZD	2.89	-0.06	NZGB 5 1/2 04/15/23	2.48	-0.04	5 year	2.67	-0.04	
EUR	0.00	0.06	-0.16	0.88	GER	0.47	0.02	NZGB 2 3/4 04/15/25	2.73	-0.04	7 year	2.93	-0.05	
GBP	0.25	0.29	0.59	1.24	GBP	1.18	0.03	NZGB 4 1/2 04/15/27	2.89	-0.06	10 year	3.19	-0.06	
JPY	-0.05	-0.01	0.04	0.26	JPY	0.07	-0.00	NZGB 3 1/2 04/14/33	3.27	-0.06	15 year	3.45	-0.06	
CAD	0.75	1.17	1.59	2.21	CAD	1.92	0.03	NZGB 2 3/4 04/15/37	3.50	-0.07				

* 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 NY close Sat. morning

Source: Bloomberg

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