

8 August 2017

Events Round-Up

NZ: RBNZ survey 2yr inflation exp., Q3: 2.09 vs. 2.17 prev.

GE: Industrial production (m/m%), Jun: -1.1 vs. 0.2 exp.

CH: Foreign reserves (\$bn), Jul: 3081 vs. 3075 exp.

Good Morning

It has been a quiet start to the week with mostly microscopic price changes across bonds, equities and currencies. However, most notably, the NZD has started the week on the back foot as focus turns to Thursday's Monetary Policy Statement.

While most major currency changes are within plus or minus 0.3% against the USD versus Friday's close, the NZD is down 0.7% to 0.7360, its lowest level in over two weeks. There was no particular trigger for the fall, beginning in the early evening and showing a steady decline. Earlier in the day, the RBNZ survey of inflation expectations showed a modest dip, but that was no surprise, following the fall in actual inflation. The fall likely reflects traders reducing (extreme) net long positions ahead of the MPS, which isn't expected to be supportive to the NZD, with inflation tracking lower than the RBNZ projected back in May.

The NZD is now a full two cents lower from the late-July peak but we suspect further downside lies ahead, with that view possibly supported by a well-overdue recovery in the USD after months of broadly-based weakness. It would help if US CPI data on Friday can break the run of negative surprises, following hot on the heels of last week's strong employment report.

The USD has managed to sustain last Friday's post-employment gains and is flat on the various indices. The Fed's resident uber-dove Bullard gave a speech calling for steady rates, as inflation surprised to the downside and he suggested there was little relationship between the unemployment rate and inflation. He later told reporters that he's ready to start balance sheet adjustment in September. His comments had little impact on the market, and neither did fellow-dove Kashkari, who highlighted the shortfall of inflation relative to target.

Other commodity currencies are down slightly, but nothing like the fall in the NZD, with the AUD down less

than 0.2% and the CAD down 0.3%. Being the standout underperformer, the NZD is down on all the crosses. NZD/AUD has traded sub-0.93 this morning.

German industrial production unexpectedly slipped in June but this had little impact on the market, as it followed strong factory orders data last week. EUR has nudged up a little and sits just under the 1.18 mark, taking NZD/EUR down to 0.6240.

In the world of currencies, the only other thing worth noting is that Bitcoin is up 18% to a record high. In a low vol world it's handy to know that not everything is trading in tight ranges and there are always trading opportunities out there.

On bond markets, there's not a lot to add. US 10-year Treasuries have traded in a tight 2.25-2.28% range and they currently sit 1bp below the NZ close at the bottom of that range. This likely reflects the tailwind from lower European rates, with UK and Germany 10 year rates down 4bps and 1bp respectively. A modest fall in oil prices has provided a supporting role.

The local rates market was fairly dead yesterday, with the partial Australian holiday not helping. There was a slight steepening curve bias, reflecting global forces, with the 2-year swap rate up by less than 1bp to 2.18% and the 10-year rate up 2bp to 3.21%. The short end of the curve remains near the low of the range this year, ahead of Thursday's MPS, as the market has pushed out the first tightening well into the second half next year, edging closer to the RBNZ's view of a long period of unchanged policy. A quiet local and global economic calendar ahead of that release suggests quiet trading conditions over the next couple of days.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
AU	NAB business conditions	Jul		15	13:30
CH	Imports (USD, y/y%)	Jul	18.0	17.2	
CH	Exports (USD, y/y%)	Jul	11.0	11.3	
CH	Trade balance (USDbn)	Jul	45.2	42.8	
US	NFIB Small Business Optimism	Jul	103.5	103.6	22:00

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	0.7358	-0.7	0.7348	0.7401	CHF	0.9734	+0.1	S&P 500	2,480	+0.1	13.6	Oil (Brent)	52.33	-0.1
AUD	0.7912	-0.1	0.7899	0.7940	SEK	8.157	+0.1	Dow	22,113	+0.1	19.3	Oil (WTI)	49.38	-0.4
EUR	1.1790	+0.1	1.1778	1.1814	NOK	7.929	-0.2	Nasdaq	6,381	+0.5	22.2	Gold	1257.6	-0.1
GBP	1.3028	-0.1	1.3014	1.3059	HKD	7.821	+0.0	Stoxx 50	3,506	-0.0	17.9	HRC steel	619.0	-0.2
JPY	110.74	+0.0	110.66	110.92	CNY	6.722	-0.1	FTSE	7,532	+0.3	10.9	CRB	180.9	+0.1
CAD	1.2682	+0.3			SGD	1.363	+0.2	DAX	12,257	-0.3	18.2	Wheat Chic.	490.8	+1.7
NZD/AUD	0.9300	-0.6			IDR	13,321	+0.0	CAC 40	5,208	+0.5	18.1	Sugar	13.87	-1.9
NZD/EUR	0.6241	-0.9			THB	33.29	+0.0	Nikkei	20,056	+0.5	20.5	Cotton	71.22	+0.7
NZD/GBP	0.5648	-0.7			KRW	1,127	+0.2	Shanghai	3,279	+0.5	9.2	Coffee	142.1	+1.4
NZD/JPY	81.48	-0.6			TWD	30.19	+0.1	ASX 200	5,774	+0.9	4.3	WM powder	3300.0	+2.2
NZ TWI	77.78	-0.7			PHP	50.45	+0.4	NZX 50	7,772	+0.3	5.8	Australian Futures		
												3 year bond	98.06	-0.01
												10 year bond	97.37	0.02
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	1.25	1.31	1.61	2.22	USD	2.25	-0.01	NZGB 3 04/15/20	2.04	0.02	1 year	2.02	0.00	
AUD	1.50	1.69	1.88	2.82	AUD	2.62	0.00	NZGB 6 05/15/21	2.18	0.02	2 year	2.18	0.01	
NZD	1.75	1.96	2.18	3.21	NZD	2.92	0.02	NZGB 5 1/2 04/15/23	2.50	0.02	5 year	2.68	0.01	
EUR	0.00	0.06	-0.16	0.87	GER	0.46	-0.01	NZGB 2 3/4 04/15/25	2.76	0.02	7 year	2.95	0.01	
GBP	0.25	0.28	0.57	1.20	GBP	1.14	-0.04	NZGB 4 1/2 04/15/27	2.92	0.02	10 year	3.21	0.02	
JPY	-0.05	-0.02	0.04	0.26	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.29	0.02	15 year	3.47	0.02	
CAD	0.75	1.17	1.59	2.21	CAD	1.92	-0.00	NZGB 2 3/4 04/15/37	3.53	0.02				

* 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

New Zealand	Jason Wong	Senior Market Strategist	+(64 4) 924 7652
Australia	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
London	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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