

9 August 2017

Events Round-Up

AU: NAB business conditions, Jul: 15 vs. 15 prev.
 AU: NAB business confidence, Jul: 12 vs. 9 prev.
 CH: Imports (USD, y/y%), Jul: 11.0 vs. 18.0 exp.
 CH: Exports (USD, y/y%), Jul: 7.2 vs. 11.0 exp.
 CH: Trade balance (USDbn), Jul: 46.7 vs. 45.2 exp.
 US: NFIB Small Business Opt., Jul: 105.2 vs. 103.5 exp.
 US: JOLTS job openings, Jun: 6163 vs. 5750 exp.

Good Morning

It was another typical sleepy northern hemisphere summer trading session overnight, but we did see a little price action after a strong US labour market report, while the NZD and NZ rates faced downward pressure ahead of Thursday's MPS.

The NZD is again at the bottom of the leaderboard as traders anticipate a more dovish tone from the RBNZ later in the week. AUD/NZD buying has seen the cross drive up to 1.08, pulling NZD/AUD down to 0.9260, taking the cumulative fall to 1% over the past two sessions, and dragging NZD/USD down to 0.7330 in the process.

We don't see the RBNZ upping the rhetoric on the NZD. At the June OCR Review, when the NZ TWI was trading slightly above its current level, the Bank stuck to the facts, noting the prior increase in the TWI, partly explained by higher export prices. The Bank merely suggested that "a lower NZD would help rebalance the growth outlook towards the tradeables sector". We expect similar language. The TWI is more than 2½% below the peak at the end of July.

NZ short rates have also faced downward pressure ahead of the Statement, with the 2-year swap rate down 1.5bps to 2.165%, its lowest close for the year. Paying interest has evaporated and the market has become a bit one-sided. The long end of the curve outperformed global peers, with the 10-year swap rate down 4bps to 3.17% and 10-year government stock down 6bps to 2.85%.

We are effectively seeing a reversal of what we saw in the lead-up to the May MPS. Back then, the market was convinced that the Bank would adopt a more hawkish tone and yet it didn't. The Bank held the line and maintained a neutral stance. Now the market is convinced that the Bank will adopt a more dovish tone and pricing

has moved such that there now might be room for some disappointment on that score. So now, even a more dovish tone runs the risk of leading to some profit-taking on the day, seeing a modest reversal of recent trends in the NZD and rates, while the Bank holding its ground would see an even larger reaction.

On the global scene there isn't much to report other than another strong US labour market report. Job openings surged to a record 6.2 million in June and showed fewer people quitting their jobs. There are 1.1 unemployed job seekers for each available job, which is the lowest ratio since 2001. Unfilled jobs are 28% higher than the previous peak in 2007. At this point the only missing variable is stronger wages, but as the labour market continues to tighten, upward pressure should ultimately prevail. This keeps alive the prospect of further Fed tightening, although the market remains fairly sceptical of that. The data followed a report on unexpected strength in small business optimism by the NFIB.

So the USD and UST yields are higher, although a lot of the currency reaction post the labour market report has reversed. EUR and GBP have worn the brunt, falling 0.3-0.4% to 1.1760 and 1.2980 respectively, after recovering somewhat. The higher yield environment has supported the yen, seeing USD/JPY down 0.3% to 110.40 and, alongside a weak NZD, sees NZD/JPY sub-81. The USD strength sees it further away from the danger of breaking key technical support levels. The widely followed DXY is up 0.2% for the day and up around 1% from levels prevailing before last week's non-farm payrolls report.

UST yields are higher across the curve, with the 10-year rate up 2bps to 2.28%, with much of the gain coming after the JOLTs labour market report. There's not a lot on the calendar to excite the market over the next 24 hours, ahead of key US CPI data at the end of the week.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA's Kent delivers speech in Sydney				10:00
AU	Westpac consumer conf index	Aug		96.6	12:30
CH	CPI (y/y%)	Jul	1.5	1.5	13:30
CH	PPI (y/y%)	Jul	5.6	5.5	13:30
AU	Home loans (m/m%)	Jun	1.5	1.0	13:30
US	Nonfarm productivity (ann%)	Q2 P	0.7	0.0	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	0.7330	-0.4	0.7318	0.7370	CHF	0.9750	+0.2	S&P 500	2,483	+0.1	13.8	Oil (Brent)	52.04	-0.6
AUD	0.7916	+0.1	0.7887	0.7943	SEK	8.174	+0.3	Dow	22,123	+0.0	19.4	Oil (WTI)	49.08	-0.6
EUR	1.1759	-0.3	1.1715	1.1818	NOK	7.945	+0.3	Nasdaq	6,399	+0.2	22.8	Gold	1256.4	-0.1
GBP	1.2984	-0.4	1.2953	1.3052	HKD	7.824	+0.1	Stoxx 50	3,516	+0.3	17.9	HRC steel	619.0	+0.0
JPY	110.42	-0.3	110.25	110.83	CNY	6.706	-0.2	FTSE	7,543	+0.1	10.8	CRB	181.3	+0.2
CAD	1.2665	-0.1			SGD	1.363	+0.0	DAX	12,292	+0.3	17.8	Wheat Chic.	484.0	-1.3
NZD/AUD	0.9260	-0.5			IDR	13,313	-0.1	CAC 40	5,219	+0.0	18.2	Sugar	13.78	-0.6
NZD/EUR	0.6234	-0.1			THB	33.28	-0.0	Nikkei	19,996	-0.3	19.3	Cotton	71.91	+0.2
NZD/GBP	0.5645	-0.1			KRW	1,125	-0.2	Shanghai	3,282	+0.1	8.5	Coffee	142.8	+0.5
NZD/JPY	80.94	-0.7			TWD	30.17	-0.1	ASX 200	5,744	-0.5	3.4	WM powder	3300.0	+0.0
NZ TWI	77.45	-0.5			PHP	50.53	+0.2	NZX 50	7,783	+0.1	5.7	Australian Futures		
												3 year bond	98.04	-0.02
												10 year bond	97.34	-0.02
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	1.25	1.31	1.61	2.23	USD	2.28	0.02	NZGB 3 04/15/20	2.00	-0.04	1 year	2.02	-0.00	
AUD	1.50	1.69	1.90	2.84	AUD	2.63	0.01	NZGB 6 05/15/21	2.14	-0.04	2 year	2.17	-0.02	
NZD	1.75	1.96	2.17	3.17	NZD	2.85	-0.07	NZGB 5 1/2 04/15/23	2.45	-0.05	5 year	2.65	-0.03	
EUR	0.00	0.06	-0.16	0.88	GER	0.47	0.02	NZGB 2 3/4 04/15/25	2.69	-0.06	7 year	2.91	-0.03	
GBP	0.25	0.28	0.57	1.21	GBP	1.16	0.02	NZGB 4 1/2 04/15/27	2.85	-0.06	10 year	3.17	-0.04	
JPY	-0.04	-0.02	0.04	0.26	JPY	0.07	-0.00	NZGB 3 1/2 04/14/33	3.22	-0.07	15 year	3.43	-0.04	
CAD	0.75	1.17	1.61	2.25	CAD	1.95	0.03	NZGB 2 3/4 04/15/37	3.46	-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: NZT 06:40

Source: Bloomberg

Contact Details

New Zealand	Jason Wong	Senior Markets 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	Gavin Friend	Senior Markets Strategist	+(44 0) 20 7710 0898

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.