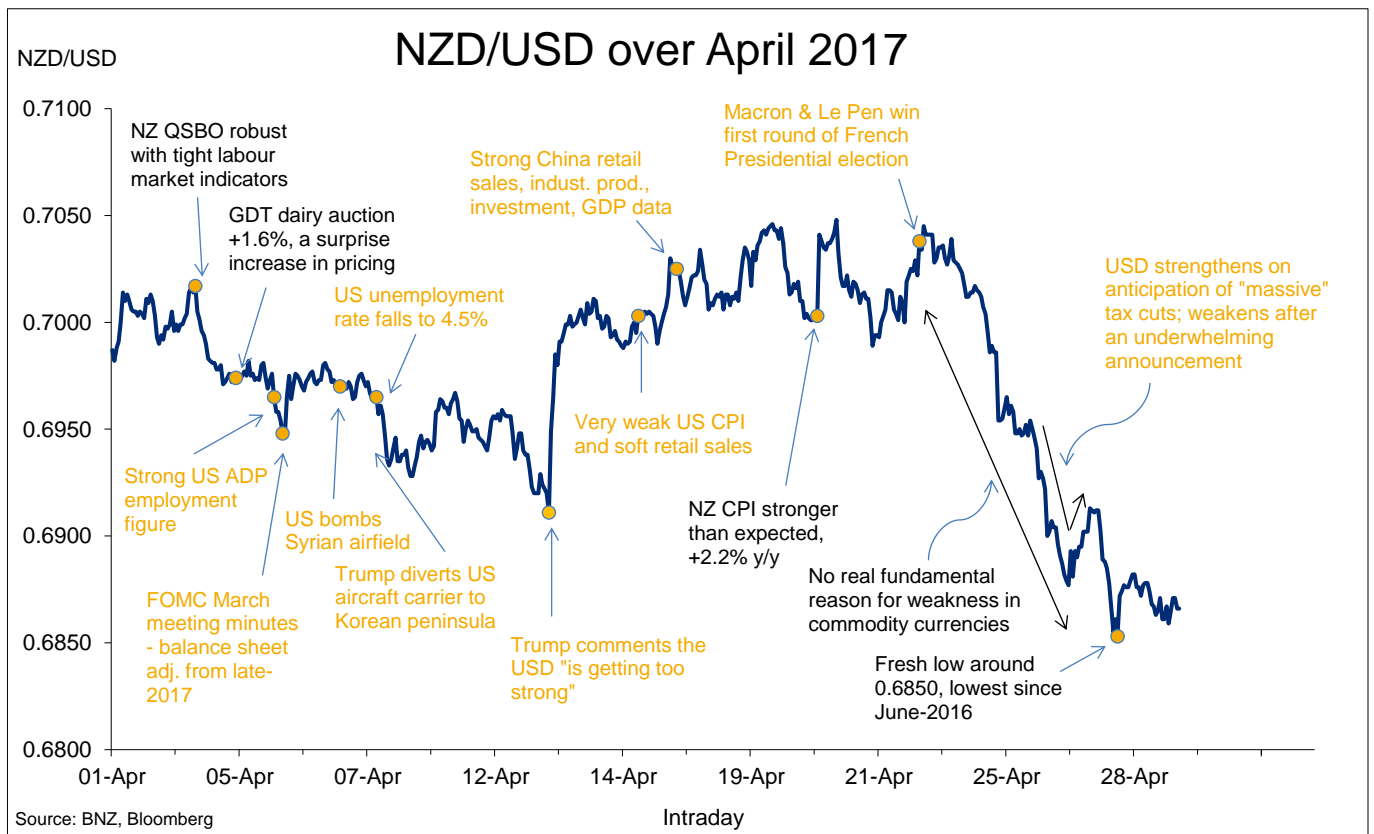


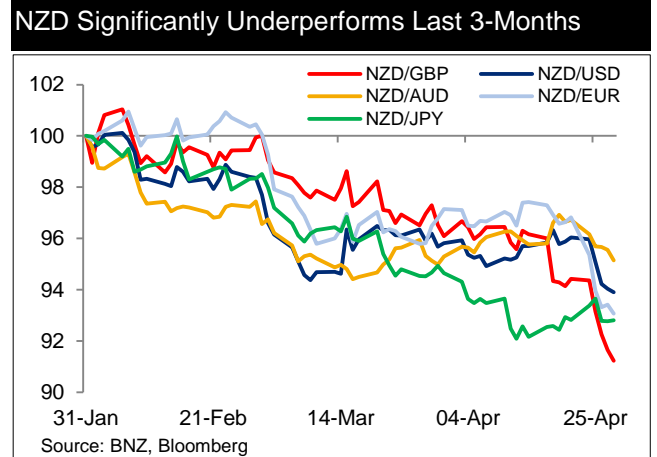
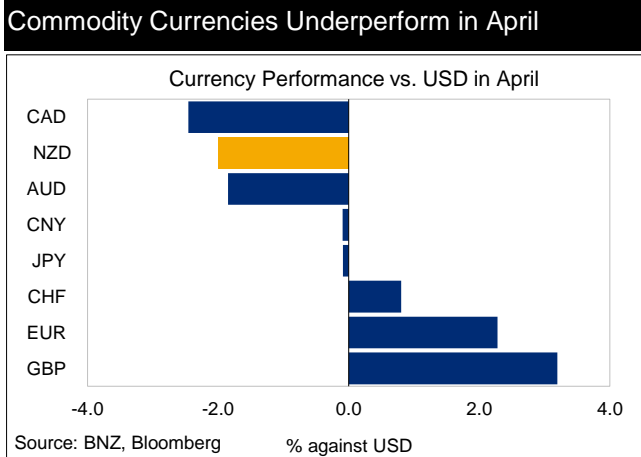
1 May 2017

Commodity Currencies Soft in April

- The NZD continued its run of underperformance
- NZD TWI down 2% in April and 6% for the three months ending April
- Market-friendly French Presidential election outcome supports risk appetite and EUR



Quick Outlook		April ranges
NZD/USD	Looks oversold short-term but ultimately we see further downside in 2H. Correlation with risk appetite has (temporarily) moved to zero and other fundamental forces also appear to be missing in action. A less dovish RBNZ on 11 May would help.	0.6850 – 0.7050
NZD/AUD	Range-bound with a modest upside bias, possibly supported by a less dovish RBNZ. We still prefer NZ economic outlook to Australia, a supportive factor for the cross.	0.9160 – 0.9395
NZD/GBP	GBP supported by the surprise snap election announcement and closing of net short positions. This could continue for a couple of months before the realities of a tough Brexit negotiation begin to emerge. Cross could head lower before reversing course.	0.5300 – 0.5625
NZD/EUR	We recently reduced our year-end target to 0.59, with a likely less dovish ECB being the key driver and supported by reduced political risk. However, it is unlikely to be a linear move and after the recent tumble it might consolidate for a bit.	0.6275 – 0.6625
NZD/JPY	With USTs near the bottom of the range, the path of least resistance is for a weaker yen, which should help this cross make up some lost ground over recent months.	75.70 – 78.10
90-day BB	Flat, with little chance of monetary policy adjustment over coming months.	1.95% - 2.00%



A tight NZD range until a late-month fall

The NZD continued its recent bout of underperformance, falling alongside other commodity currencies in April. Much of the weakness came during the last week of the month and with no obvious driving factors. NZD/USD traded in a tight two-cents range of 0.6850-0.7050, with a fall from the top to the bottom of the range over a period in which risk appetite surged ahead, following a market-friendly French Presidential election result.

Commodity prices mostly weaker; dairy an exception

The NZD underperformance remains a puzzle. For the month of April we could possibly point to lower commodity prices. Oil prices fell around 3-3½%, taking the WTI crude benchmark back to around USD49 per barrel. Global commodity price indices like the CRB or Bloomberg index were down by about 2%, reaching their lows for the year. Iron ore prices fell by 14%. Of note, NZ dairy prices were generally stronger for the month, with the NZX whole milk powder future up 9%. Between the lows of March and the April high, WMP prices were up some 25%. Normally, this dynamic would be NZD-positive, but perhaps the market sees the blip higher in dairy pricing as a short-term phenomenon.

NZD soft, in line with AUD, CAD

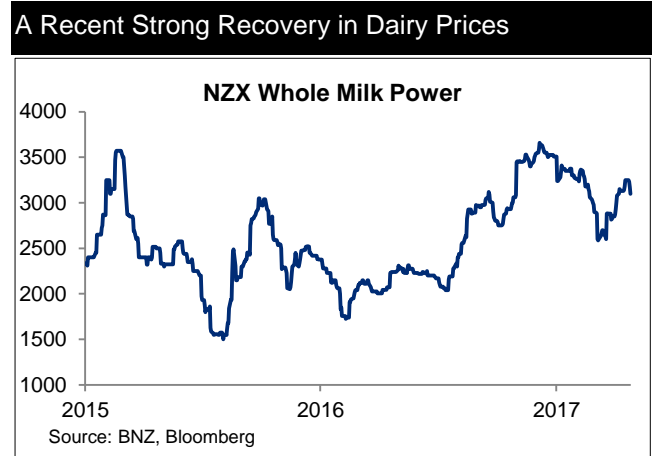
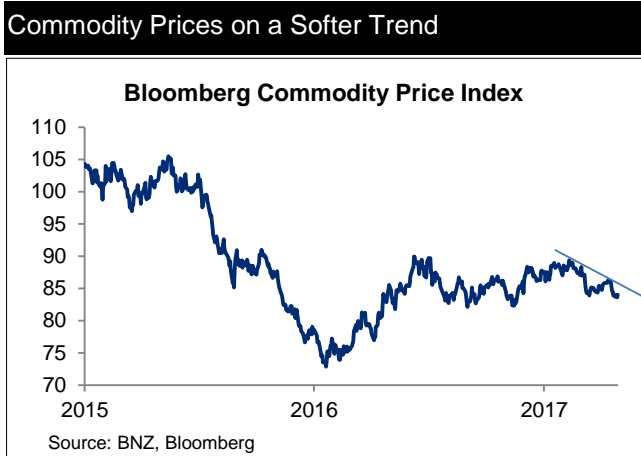
Lower commodity prices were a factor in dragging down the Australian and Canadian dollars and the NZD performance for the month was not out of line with them. NZD/AUD opened and closed the month close to the 0.92 mark, with the cross almost reaching 0.94 intra-month.

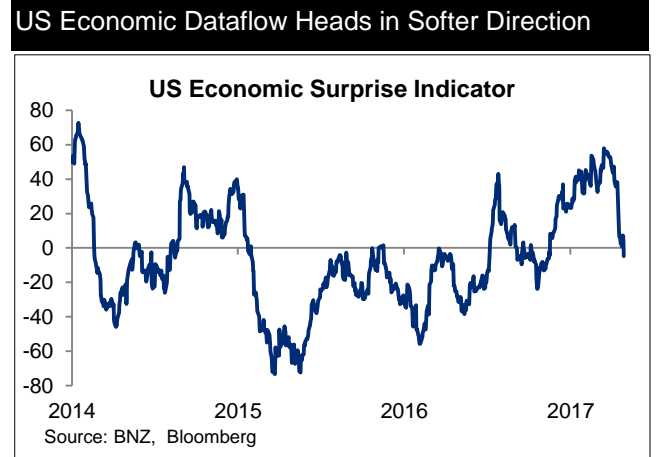
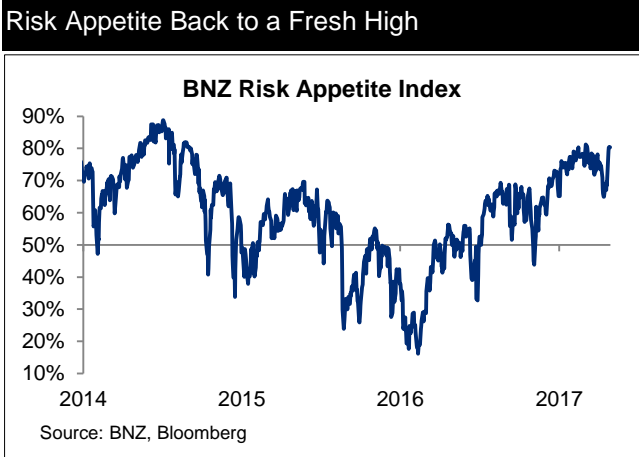
Geopolitical risk increases

Our risk appetite index traded in a wider than usual range of 65-81%. It fell as reports came through of the US bombing of a Syrian airfield. This was closely followed by Trump upping his rhetoric against North Korea. Geopolitical risks certainly intensified, but quickly blew over as the Syrian bombing proved to be more of a warning message than the beginning of a fresh US war. The market also took the view that despite the US rhetoric on North Korea that "all options were on the table", in fact nothing had really changed and military action against North Korea was far too risky.

Positive French election buoys risk appetite

Risk appetite ended the month at its highs around 81%, with the jump up following the plunge in the VIX index after the French Presidential election result. In a closely fought battle between four leading contenders, the polls leading up to the election showing Macron and Le Pen winning the top two places to move to the second round vote proved to be accurate. This cleared away significant political risk for the euro area and came as a relief to the market. As another indicator of higher risk appetite, the MSCI world equity index reached a record high, with the index closing the month 1.2% higher.





NZD/EUR much weaker

The election result boosted the euro and, combined with NZD underperformance, saw the NZD/EUR cross rate down 4½% for the month and reaching its lowest level since June last year. The ECB left policy unchanged and retained its pledge to “keep rates at present or lower levels for extended period of time”. But with strong growth momentum in the region, this phrasing is looking past its due-by date and a less dovish tone is widely expected to follow in the next meeting in June.

Snap election announcement boosts GBP

The other significant political event was the UK’s PM May announcing a snap election, which surprised everyone. This significantly boosted GBP, a currency which traders have been significantly short, as the conservative party looks to increase the size of its majority. Many argue that a stronger UK government will help PM May negotiate a better deal for the UK as it leaves the EU. NZD/GBP fell by 5% for the month and, excluding November’s flash crash, reached its lowest level since last July.

Softer US data but 2-yr rate little changed

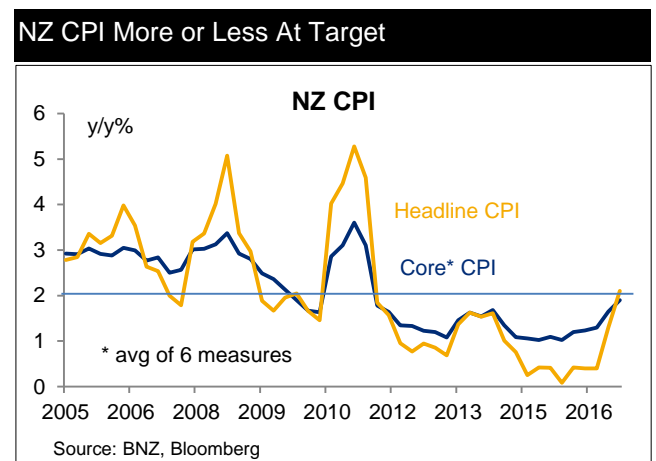
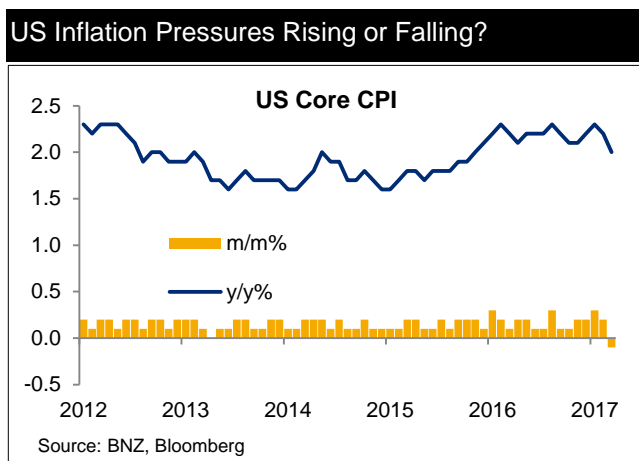
In the US, the market remained focused on the outlook for Fed policy. After a run of very positive economic data during Q1, Citigroup’s US economic surprise index turned decisively lower in April, raising some doubt about whether the Fed would raise rates another two times this year. The March CPI missed significantly to the downside, with the core CPI showing its first monthly fall since 2010. In the end, expectations for hikes only softened a little, with a number of Fed speakers indicating that their view about the outlook hadn’t changed. The US 2-year Treasury rate closed the month little changed at 1.26%.

Fresh low for US 10-yr yield

The increased geopolitical risk, softer US data and anxiety ahead of the French election saw the US 10-year rate fall to a fresh low for the year of 2.16%, before improved risk sentiment saw it close the month at 2.28%, down 11bps. The lower global rate environment lent some support for the yen, although after reaching as low as 108.15, higher risk appetite saw USD/JPY close the month at 111.30. The lack of the usual correlation between risk appetite and the NZD during April was evident in the fall in NZD/JPY of over 2% to 76.4.

NZ inflation higher than expected

NZ’s Q1 CPI inflation came in stronger than market and RBNZ expectations, reaching a six-year high of 2.2%. Annual inflation on six core CPI measures that the RBNZ has previously referred to rose to 1.9%, showing a steadily higher trend after bottoming five quarters ago at 1.0%. The RBNZ’s previous policy guidance helped contain any NZD or rates market reaction to the release. The 2-year swap rate closed the month down 2bps at 2.31%.



Flat CNY and Asian currency basket

CNY remained tightly controlled and closed the month little changed against the USD. Economic indicators continued to suggest robust growth momentum in China's economy and reduced concerns about capital outflows. The Asian currency basket ADXY was also little changed against the USD. The same applies when considering the period three months ending April. This further highlights the NZD's underperformance and looks at odds with fundamental factors. Over the past three months the NZ TWI was down by just over 6%, with large falls on all the major crosses.

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Monthly Performance Table

	end-Apr	end-Mar	Change		end-Apr	end-Mar	Change
Currencies				NZ Rates			
NZD/USD	0.6862	0.7006	-2.1%	OCR	1.75	1.75	0.00
NZD/AUD	0.9187	0.9185	0.0%	NZ 90day BB	1.99	2.01	-0.02
NZD/EUR	0.6288	0.6577	-4.4%	NZ 2yr sw ap	2.31	2.32	-0.02
NZD/GBP	0.5302	0.5585	-5.1%	NZ 5yr sw ap	2.89	2.93	-0.04
NZD/JPY	76.35	78.06	-2.2%	NZ 10yr sw ap	3.38	3.45	-0.08
NZD/CNY	4.729	4.8189	-1.9%	NZ Govt (3/19)	2.08	2.14	-0.06
TWI	74.7	76.2	-1.9%	NZ Govt (5/21)	2.43	2.48	-0.05
AUD/USD	0.7470	0.7629	-2.1%	NZ Govt (4/27)	3.05	3.19	-0.15
EUR/USD	1.0914	1.0652	2.5%	Global 10 year bond rates			
GBP/USD	1.2942	1.2550	3.1%	US	2.28	2.39	-0.11
USD/JPY	111.28	111.39	-0.1%	Canada	1.55	1.62	-0.08
USD/CNY	6.89	6.89	0.1%	UK	1.08	1.14	-0.05
USD/CAD	1.3652	1.3318	2.5%	France	0.83	0.97	-0.13
USD TWI major	121.53	122.11	-0.5%	Germany	0.32	0.33	-0.01
Asia DXY	105.42	105.52	-0.1%	Italy	2.28	2.32	-0.04
Equity Markets				Spain	1.64	1.65	-0.02
MSCI AC Wrld, loc.	1,040	1,026	1.3%	Portugal	3.52	3.95	-0.43
MSCI World, loc.	5,728	5,660	1.2%	Ireland	0.84	0.98	-0.14
MSCI EM, USD	2,086	2,041	2.2%	Japan	0.01	0.07	-0.06
US S&P 500	2,384	2,363	0.9%	Australia	2.58	2.70	-0.13
Euro STOXX 600	387.1	381.1	1.6%	Commodities (USD)			
Germany DAX	12,438	12,313	1.0%	WTI Crude	49.33	51.07	-3.4%
France CAC 40	5,267	5,123	2.8%	Brent Crude	52.05	53.79	-3.2%
UK FTSE 100	7,204	7,323	-1.6%	R/B CRB Index	181.7	185.9	-2.2%
Aust S&P/ASX 200	5,924	5,865	1.0%	Gold spot	1,268	1,249	1.5%
Japan Topix	1,532	1,513	1.3%	Silver spot	17.22	18.27	-5.8%
China CSI 300	3,440	3,456	-0.5%	Copper	259.7	265.3	-2.1%
NZX50	7,379	7,197	2.5%	Iron Ore	68.80	80.39	-14.4%
Volatility: VIX	10.82	12.37	-12.5%	Coking coal	201.50	178.00	13.2%
3-mth Bill Futures				Thermal coal	83.55	80.75	3.5%
NZD Dec-17	97.89	97.85	0.04	Corn	366.5	371.8	-1.4%
AUD Dec-17	98.26	98.17	0.09	Wheat	432.3	439.0	-1.5%
USD Dec-17	98.52	98.45	0.06	NZX Dairy WMP	3,100	2,850	8.8%
EUR Dec-17	100.29	100.27	0.02	NZX Milk Price 2017 NZD 6.05	NZD 6	NZD 6	0.8%
GBP Dec-17	99.60	99.53	0.07				

Source: BNZ, Bloomberg

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