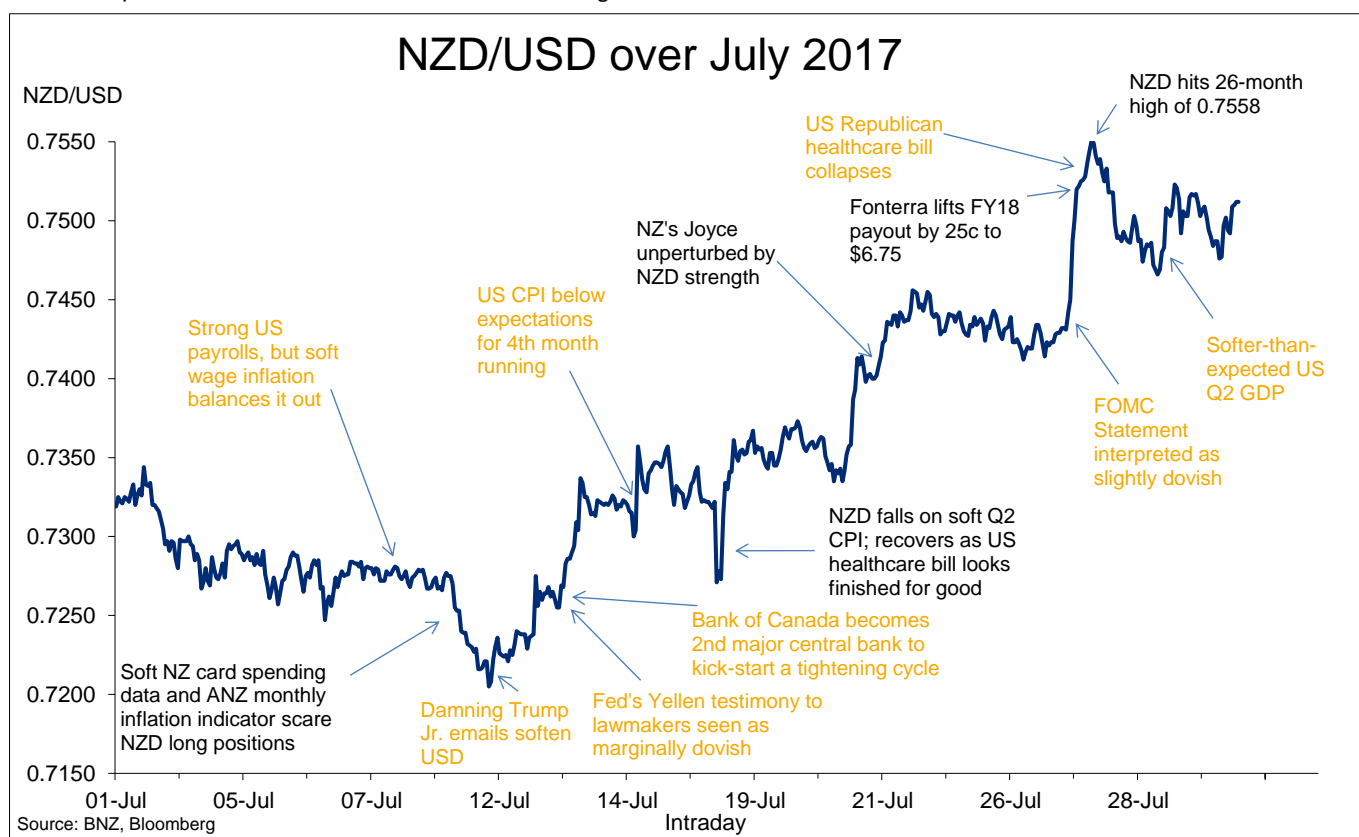


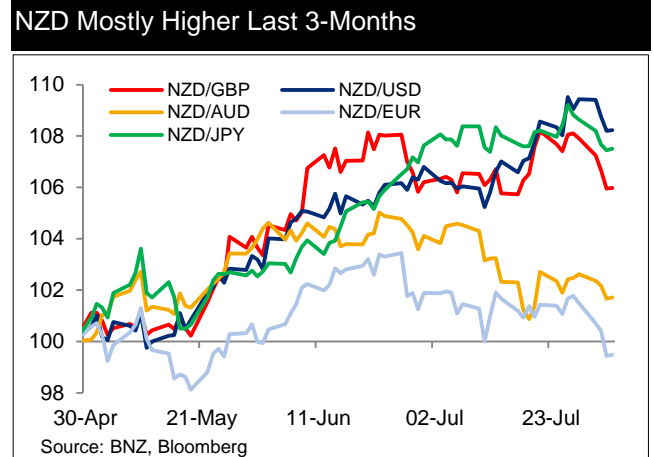
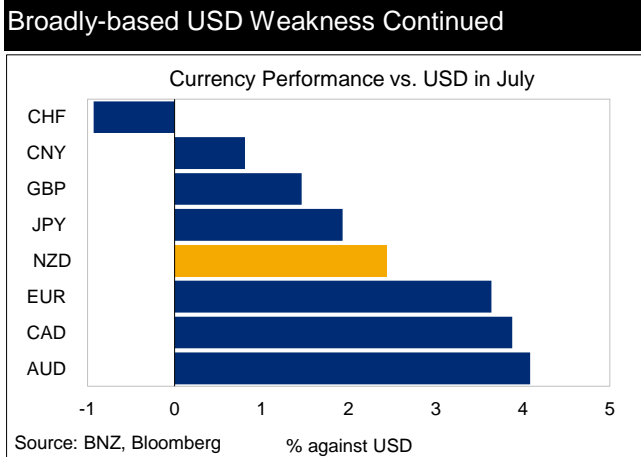
3 August 2017

## USD (still) under pressure in July

- Risk sentiment positive in July, supporting commodity currencies
- NZD reached a 26-month high, aided by soft USD backdrop
- TWI up a more modest 0.5%, with NZD weaker against AUD and EUR



Quick Outlook		July ranges
NZD/USD	Risks skewed to the downside after the strong run in July and record long speculative positioning. USD looking oversold across the board. Finely poised NZ election next month is a likely headwind.	0.7200 – 0.7560
NZD/AUD	Consolidation phase around the mid-0.90s to continue, with NZ election risk a headwind. Both central banks are likely reluctant to move away from neutral stances.	0.9220 – 0.9620
NZD/GBP	More hawkish BoE rhetoric has recently trumped the more precarious political backdrop ahead of Brexit talks. The battle between these two forces will determine how GBP fares from here.	0.5565 – 0.5745
NZD/EUR	Clear downside risk with the positive euro-area growth backdrop and the ECB now firmly in play, looking to gradually signal less policy accommodation over coming months.	0.6290 – 0.6470
NZD/JPY	Consolidation phase might continue. Cross vulnerable to a hit to risk appetite, whenever that might be, although fundamentally we remain negative on the yen.	81.70 – 83.90
90-day BB	Flat, with little chance of monetary policy adjustment over coming months.	1.93% - 2.00%



**Higher risk appetite supports equities, commodities..**

The backdrop of a broadly-based global economic recovery supported market sentiment, seeing global equities reach record highs and the VIX index fall to its lowest level since 1993. In another sign of “risk-on”, emerging market equities led the charge, rising by 6% in USD terms for the month. Our risk appetite index (scale 0-100) spent most of the month above the 80 mark.

This backdrop also supported commodity prices. Oil prices rebounded as OPEC looked to contain supply, while demand indicators improved. Copper, iron ore, coal and dairy prices all showed solid gains for the month, even accounting for the soft USD. Fonterra raised its projected milk payout for FY2018 by 25 cents to \$6.75.

**...and commodity currencies**

Alongside higher risk appetite and commodity prices, commodity currencies were well supported, with the AUD, CAD and NZD three of the top four major currencies we closely follow. Of that trio, the NZD underperformed. Both the AUD and CAD managed strong gains of around 4% against the USD, while the NZD’s appreciation was closer to 2½%. Late in the month, the NZD reached a 26-month high of 0.7558. Performance versus other commodity currencies was weighed down by soft NZ CPI data (flat headline and core measures in Q2) helping drive down NZ rates and supporting the RBNZ’s neutral policy stance. The Bank of Canada became the second major developed central bank to embark on a tightening cycle driving up Canada-global rate spreads across the curve and supporting the CAD.

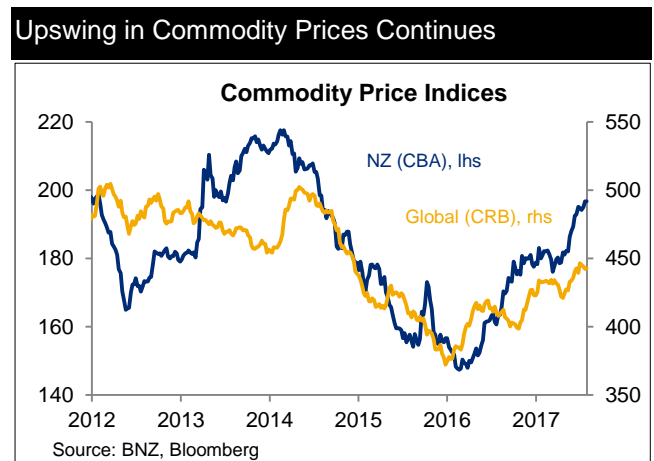
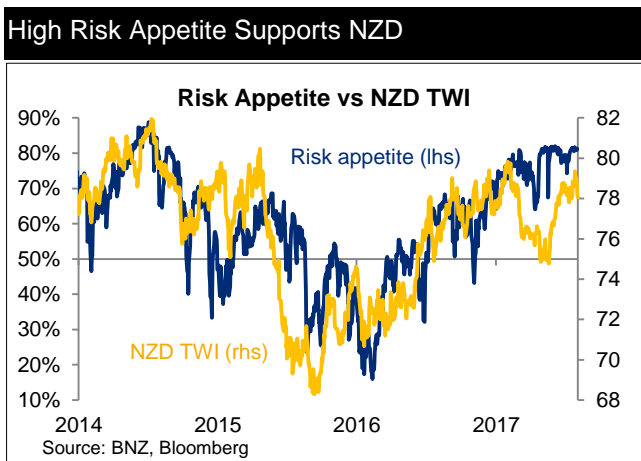
**26-month high for NZD**

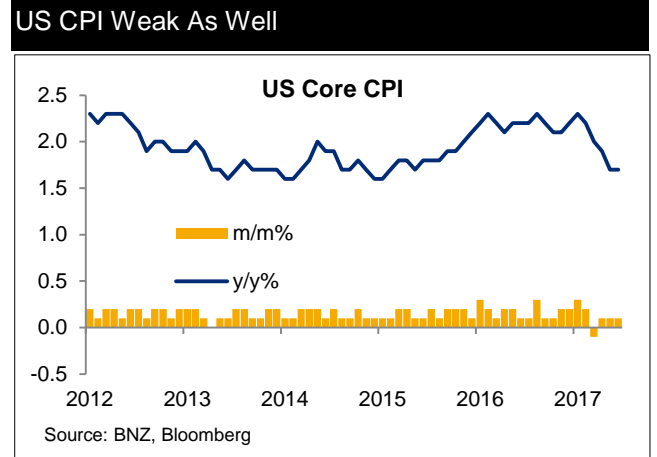
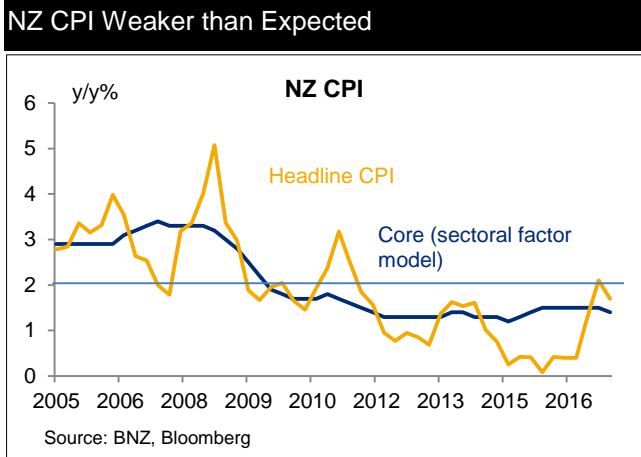
NZD/AUD traded in a wide 4-cent range of around 0.9220–0.9620, driven by the outperformance of Australian vs NZ commodity prices and the soft NZ CPI data. Some currency volatility in the second half of the month can be attributed to the market’s misinterpretation of RBA Board minutes, which revealed a discussion on the neutral policy rate. The importance of those remarks were later downplayed by both Deputy Governor DeBelle and Governor Lowe.

**NZD/AUD trades a wide range**

**USD under downward pressure**

The USD remained under downward pressure for most of the month, with the major currency TWI index down 3.0%, the fifth consecutive monthly depreciation. On the political front concerns were raised over Trump Junior’s links with Russia and after a series of attempts the Senate Republican efforts to repeal and replace Obamacare culminated in defeat. The debate over the healthcare bill simply reinforced the view that the Republican party was split and it would be difficult to get any substantial legislation through, including anticipated tax reform.





**Weak US CPI again**

The US CPI undershot market expectations for a fourth consecutive month and wage inflation continued to underwhelm. This continued to raise a question mark over the extent of further Fed tightening this cycle. Mid-way through the month Fed Chair Yellen’s testimony before Congress was interpreted as marginally dovish and later in the month the FOMC statement acknowledged that inflation had declined and was running below 2%. All these factors weighed on the USD.

**EUR well supported**

EUR showed further strong gains, rising by 3½%, with even the well-supported NZD not managing to keep pace, with NZD/EUR down over 1%. The ECB didn’t change its forward guidance on policy, but President Draghi indicated that a roadmap for future monetary policy changes would be outlined in “autumn”. The market took that as a sign of some tapering of asset purchases announcement at that time, most likely in the October meeting. Furthermore, Draghi didn’t pushback significantly when questioned about the strength of the euro, indicating that overall financial conditions were broadly supportive.

**NZD up modestly on most crosses**

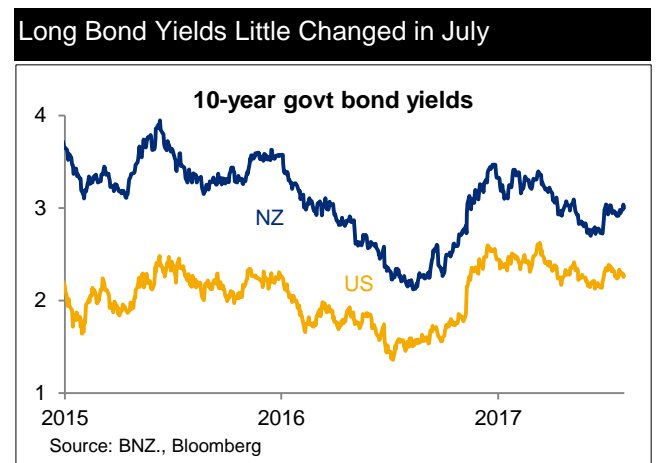
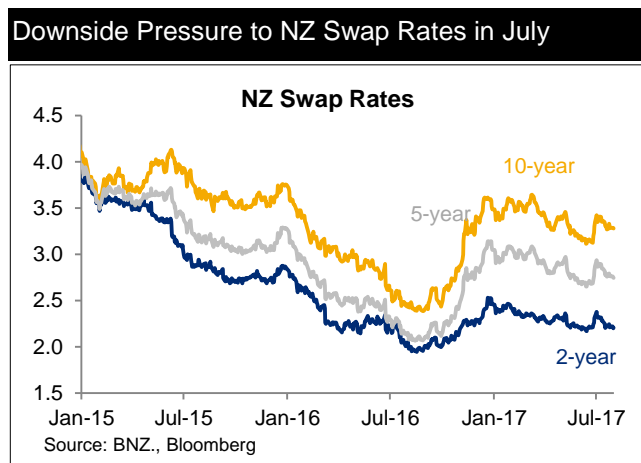
GBP and JPY both made 1½-2% gains against the (soft) USD, but without the benefit of the commodity prices tailwind, NZD/GBP and NZD/JPY crosses were up for the month, in the order of ½-1%. The PBoC kept its currency basket trading within a tight range, and this supported a 1½% gain in NZD/CNY.

With some offsetting cross rate performance, NZ’s TWI looked to be largely range-bound during the month, and ending only slightly higher at +0.5% to 79.0.

**Not much action in the bond market**

US 10-year Treasuries traded in a fairly tight range around 2.25-2.40% and ended the month flat at 2.30%, with the probability of another rate hike priced by year end sitting at less than 50%. Government 10-year rates elsewhere also showed fairly modest movements, apart from Canada, which saw its 10-year rate up 29bps to 2.05% encouraged by the policy rate hike. Soft NZ CPI data encouraged a pushing out of NZ rate hike expectations later into 2018, seeing the 2-year swap rate down 12bps for the month at 2.22%.

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## Monthly Performance Table

	end-Jul	end-Jun	Change		end-Jul	end-Jun	Change
<b>Currencies</b>				<b>NZ Rates</b>			
NZD/USD	0.7512	0.7333	2.4%	OCR	1.75	1.75	0.00
NZD/AUD	0.9388	0.9548	-1.7%	NZ 90day BB	1.96	1.99	-0.03
NZD/EUR	0.6346	0.6420	-1.2%	NZ 2yr sw ap	2.22	2.33	-0.12
NZD/GBP	0.5686	0.5631	1.0%	NZ 5yr sw ap	2.76	2.87	-0.12
NZD/JPY	82.82	82.38	0.5%	NZ 10yr sw ap	3.28	3.35	-0.07
NZD/CNY	5.051	4.9722	1.6%	NZ Govt (4/20)	2.10	2.26	-0.17
TWI	79.0	78.6	0.5%	NZ Govt (4/23)	2.57	2.67	-0.10
AUD/USD	0.8003	0.7689	4.1%	NZ Govt (4/27)	2.99	2.98	0.01
EUR/USD	1.1842	1.1426	3.6%	<b>Global 10 year bond rates</b>			
GBP/USD	1.3215	1.3025	1.5%	US	2.30	2.31	-0.01
USD/JPY	110.26	112.39	-1.9%	Canada	2.05	1.76	0.29
USD/CNY	6.73	6.78	-0.8%	UK	1.23	1.26	-0.03
USD/CAD	1.2480	1.2964	-3.7%	France	0.80	0.81	-0.01
USD TWI major	113.80	117.35	-3.0%	Germany	0.54	0.47	0.08
Asia DXY	107.14	106.25	0.8%	Italy	2.09	2.16	-0.06
<b>Equity Markets</b>				Spain	1.48	1.52	-0.04
MSCI AC Wrld, loc.	1,079	1,060	1.9%	Portugal	2.85	3.01	-0.17
MSCI World, loc.	5,907	5,822	1.5%	Ireland	0.83	0.86	-0.03
MSCI EM, USD	2,302	2,171	6.0%	Japan	0.08	0.08	0.00
US S&P 500	2,470	2,423	1.9%	Australia	2.68	2.60	0.08
Euro STOXX 600	377.9	379.4	-0.4%	<b>Commodities (USD)</b>			
Germany DAX	12,118	12,325	-1.7%	WTI Crude	50.17	46.29	8.4%
France CAC 40	5,094	5,121	-0.5%	Brent Crude	52.72	49.04	7.5%
UK FTSE 100	7,372	7,313	0.8%	R/B CRB Index	182.6	174.8	4.5%
Aust S&P/ASX 200	5,721	5,721	0.0%	Gold spot	1,269	1,242	2.2%
Japan Topix	1,619	1,612	0.4%	Silver spot	16.83	16.63	1.2%
China CSI 300	3,738	3,667	1.9%	Copper	289.2	269.9	7.1%
NZX50	7,694	7,611	1.1%	Iron Ore	73.70	64.95	13.5%
Volatility: VIX	10.26	11.18	-8.2%	Coking coal	176.00	153.00	15.0%
<b>3-mth Bill Futures</b>				Thermal coal	93.20	81.00	15.1%
NZD Dec-17	98.00	97.93	0.07	Corn	384.8	392.0	-1.8%
AUD Dec-17	98.26	98.23	0.03	Wheat	474.5	526.0	-9.8%
USD Dec-17	98.55	98.53	0.02	NZX Dairy WMP	3,260	3,000	8.7%
EUR Dec-17	100.32	100.29	0.03	NZX Milk Price 2018	NZD 6.7	NZD 6.45	3.9%
GBP Dec-17	99.59	99.50	0.09				

Source: BNZ, Bloomberg

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