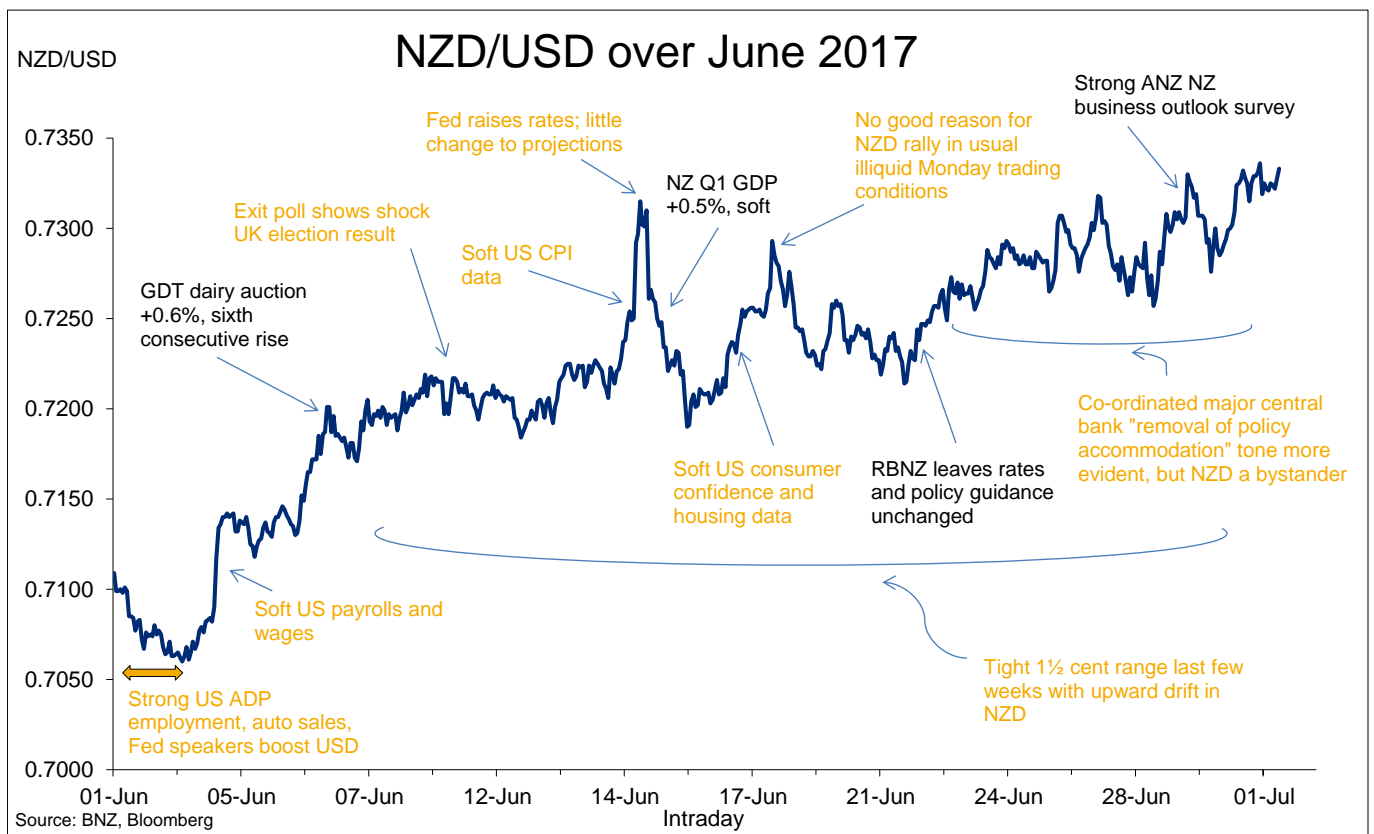


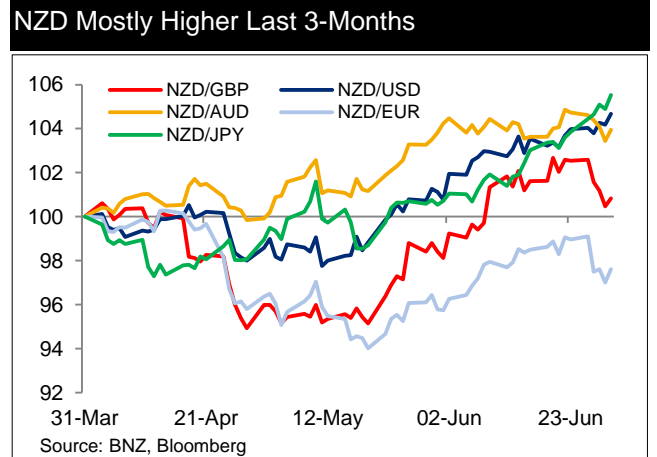
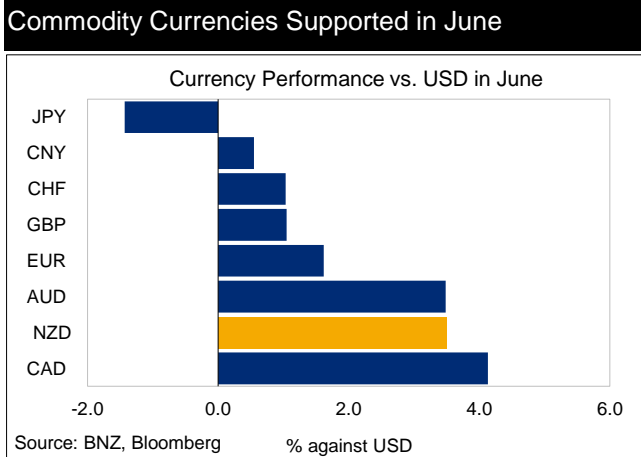
3 July 2017

June A Good Month For Commodity Currencies

- NZD, AUD and CAD all performed well in June
- Signs of coordinated major central bank guidance later in the month...
- ...causes a significant sell-off in the rates market



Quick Outlook		June ranges
NZD/USD	Time for some consolidation. Speculative positioning in NZD is long and USD is looking oversold. Potential for some better US data over coming months after a weaker-than-expected run would help.	0.7060 – 0.7345
NZD/AUD	There were signs of consolidation during June and that seems appropriate after the earlier strong rally. Both central banks are likely reluctant to move away from neutral stances for now. The 0.95 mark seems like a fair mid-point for a consolidating range.	0.9480 – 0.9650
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.	0.5475 – 0.5760
NZD/EUR	The ECB is now firmly in play, with Draghi signalling removal of policy accommodation. That is highly EUR-supportive and negative for NZD/EUR.	0.6280 – 0.6560
NZD/JPY	Due for a bit of consolidation after a blistering run. Cross vulnerable to a hit in risk appetite, although fundamentally we remain negative on the yen.	78.30 – 82.50
90-day BB	Flat, with little chance of monetary policy adjustment over coming months.	1.93% - 1.99%



Commodity currencies outperform

Commodity currencies were well supported in June, with the NZD, AUD and CAD the best performers during the month. NZD/USD ended the month 3½% higher. The USD remained under pressure, with soft payrolls, wages and CPI data not helping the cause. A weaker USD represents an easing in global financial conditions and this generally supports global commodity prices and commodity currencies. The NZ export commodity price index continued its upward march (see chart below), despite the key whole milk powder commodity showing about a 5% fall for the month.

NZD/AUD closed flat for the month

The AUD was supported by a rebound in its key commodity prices, with iron ore prices up 14% and thermal coal up 10%. NZD/AUD continued its strong 3-month recovery before meeting selling pressure just over the 0.96 mark as NZ/Australia commodity prices began to diverge. The cross ended the month flat around the 0.9550 mark.

A big swing in oil prices but net lower

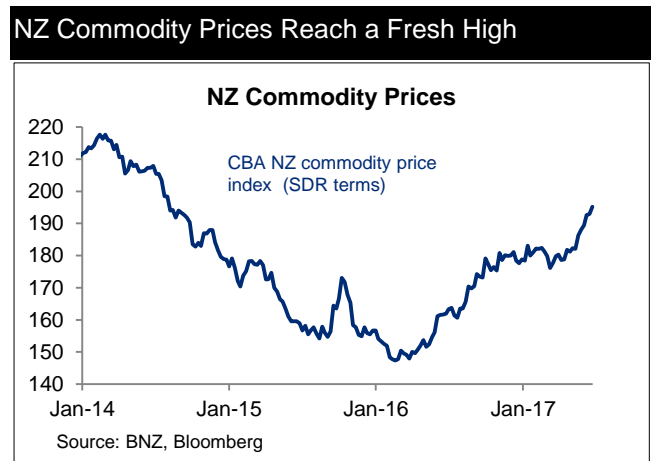
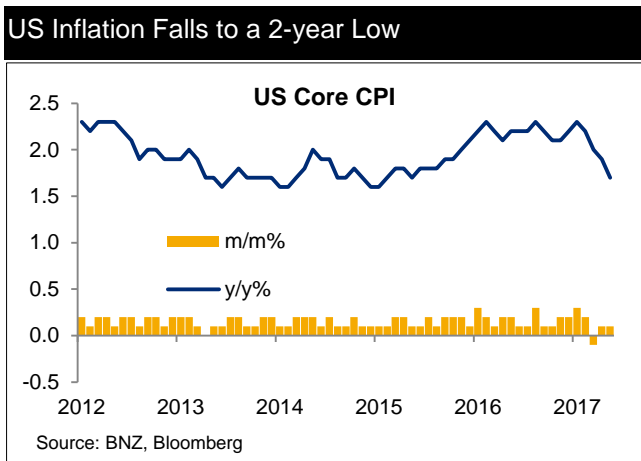
Oil prices came under significant downward pressure during the month as traders worried that the OPEC-led curb on production would not be enough to eat into higher inventory levels. WTI crude was down 15% for the month at one stage to approach USD 42 per barrel, before a late-month recovery saw it finish at about USD 46, still 5% lower for the month. Despite lower oil prices, the CAD was supported by key Bank of Canada leaders indicating a bias to tighten policy.

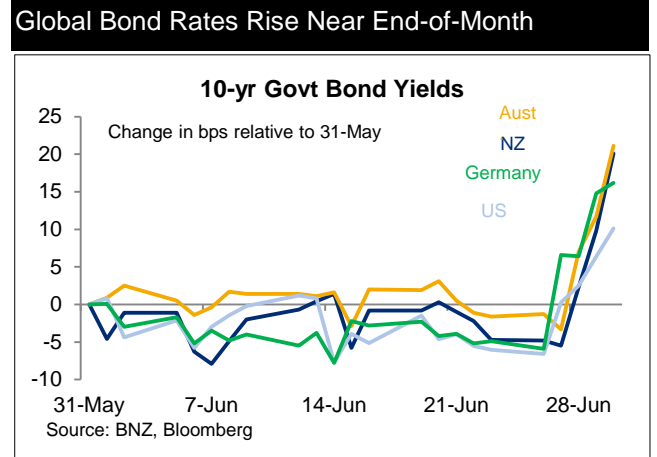
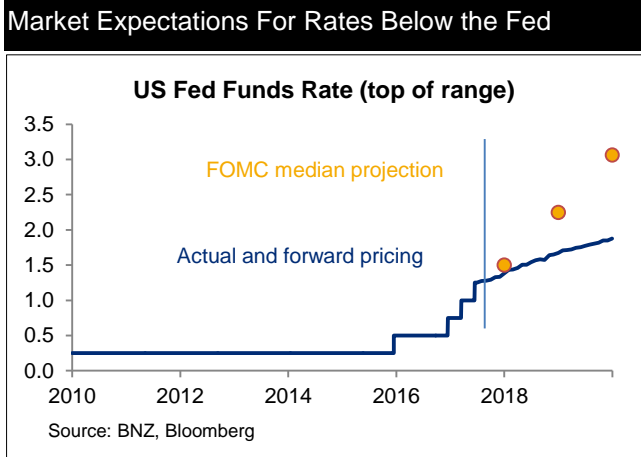
Coordinated central bank guidance towards firmer policy

Indeed, as the month progressed it became clearer that a coordinated attempt was under way by the major central banks to suggest that a removal of policy accommodation was appropriate. The Fed’s mid-month 25bp hike in the Fed Funds rate came as no surprise, but communication that the Fed was unperturbed by recent weakness in inflation and expected it to be only temporary came across as hawkish. The market remained unconvinced and continued to price in a future rate track well below the (unchanged) median expectation of the FOMC.

ECB’s Draghi change in tone was notable

Alongside more hawkish Bank of Canada commentary, the Bank of England’s MPC showed a split 5-3 vote in favour of keeping the policy rate unchanged. Three members voted for a hike and later Chief Economist Haldane and Governor Carney indicated they both had a tightening bias, albeit voted for unchanged rates. The ECB joined in on the action. Late in the month President Draghi indicated that the strength of the euro area economic recovery would ultimately allow some removal of policy accommodation.





EUR driven higher, but NZD still outperforms

Draghi’s comments were the nod the market was looking for in driving EUR higher. It broke out of a tight trading range and rose to its highest level in over a year, closing the month around 1.1425. After tracking up from 0.6300 to 0.6550 through the month, NZD/EUR came under significant downward pressure and closed the month “only” 2% higher at 0.6420.

GBP affected by opposing forces

GBP was driven by divergent forces. It plunged after the shock UK election result of a hung Parliament. The Conservatives managed to cobble together a coalition government with a minor party, allowing it to govern with a slim majority. GBP recovered after the split MPC vote was revealed and was further supported by more hawkish commentary from Haldane and Carney. NZD/GBP swung accordingly during the month and the net result was a 2½% gain for the month to 0.5630.

A big sell-off in the rates market

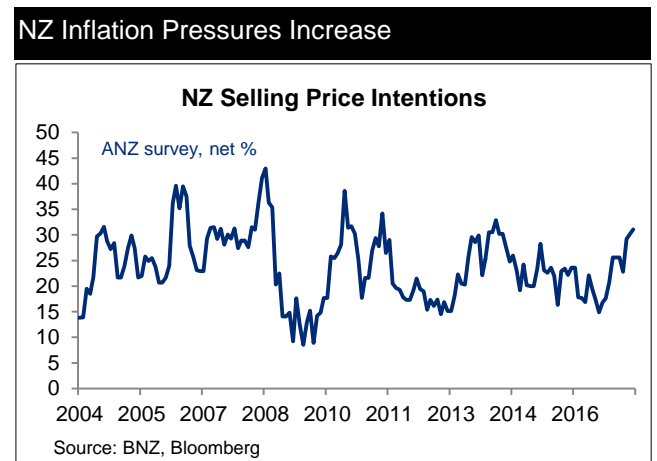
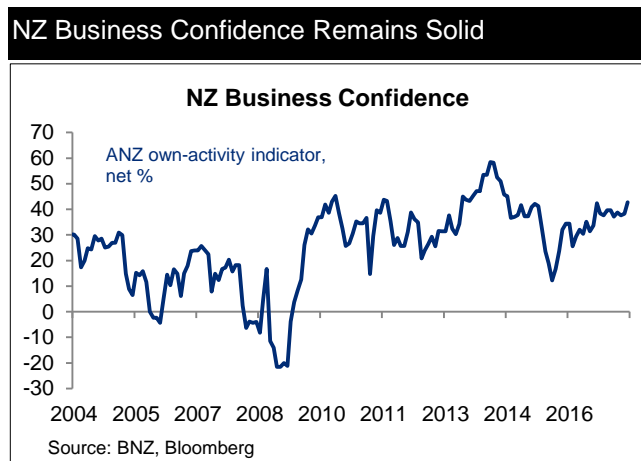
The coordinated central bank talk triggered a significant sell-off in rates markets. Rates were higher across the curve, ranging from short-term bill futures to 10-year government bonds. US 10-year Treasuries fell to as low as 2.10% after weak CPI data, but a more hawkish Fed and a sell-off led by Europe saw the rate end the month at 2.31%. Germany’s 10-year rate was 0.23% before Draghi’s policy guidance sent it much higher, closing the month at 0.47%. The UK 10-year rate was at 0.95% mid-month, before closing at 1.26%.

Yen under pressure

Higher global rates while the BoJ maintained its yield curve control policy of targeting a zero 10-year rate resulted in significant downward pressure on the yen, which ended up being the weakest of the majors. NZD/JPY ended the month up a chunky 5% to 82.4. The soft USD backdrop made it easy for the PBoC to control CNY, while the new formula for the rate set remained a mystery for all. CNY reached its strongest level since November, with USD/CNY down to 6.78.

RBNZ clearly in neutral gear

The RBNZ’s OCR review came and went with little fanfare. The bank stuck to the script maintaining its view that “monetary policy will remain accommodative for a considerable period”. The RBNZ and RBA now both stand out for their unmoved policy guidance amidst other major central banks adopting a less dovish/more hawkish tone. NZD Q1 GDP data were soft (again), but the monthly confidence surveys painted a more robust picture of economic momentum. The ANZ survey showed high levels of business confidence, rising pressure on capacity utilisation and rising inflationary pressure.



NZ rates curve higher and steeper

NZ rates were higher across the curve, driven by offshore forces, with an underlying steepening curve bias. Despite the RBNZ's unchanged guidance, the 2-year swap rate rose by 12bps to 2.33%, with the sell-off confined to the last few days of the month after Draghi spoke. The OIS market moved to price in the first RBNZ rate hike by May 2018, a few months earlier than previously seen. NZ's 10-year bond rate rose by 20bps for the month, underperforming the US market, with the NZ-US 10-year spread widening towards 70bps.

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Monthly Performance Table							
	end-Jun	end-May	Change		end-Jun	end-May	Change
Currencies				NZ Rates			
NZD/USD	0.7333	0.7085	3.5%	OCR	1.75	1.75	0.00
NZD/AUD	0.9548	0.9536	0.1%	NZ 90day BB	1.99	1.97	0.02
NZD/EUR	0.6420	0.6300	1.9%	NZ 2yr sw ap	2.33	2.22	0.12
NZD/GBP	0.5631	0.5496	2.5%	NZ 5yr sw ap	2.87	2.71	0.17
NZD/JPY	82.38	78.48	5.0%	NZ 10yr sw ap	3.35	3.19	0.16
NZD/CNY	4.972	4.8312	2.9%	NZ Govt (4/20)	2.26	2.08	0.19
TWI	78.3	76.6	2.1%	NZ Govt (4/23)	2.67	2.46	0.21
AUD/USD	0.7689	0.7430	3.5%	NZ Govt (4/27)	2.98	2.78	0.20
EUR/USD	1.1426	1.1244	1.6%	Global 10 year bond rates			
GBP/USD	1.3025	1.2890	1.0%	US	2.31	2.20	0.10
USD/JPY	112.39	110.78	1.5%	Canada	1.76	1.42	0.35
USD/CNY	6.78	6.82	-0.5%	UK	1.26	1.05	0.21
USD/CAD	1.2964	1.3500	-4.0%	France	0.81	0.73	0.08
USD TWI major	117.35	119.58	-1.9%	Germany	0.47	0.30	0.16
Asia DXY	106.25	106.26	0.0%	Italy	2.16	2.20	-0.04
Equity Markets				Spain	1.52	1.54	-0.02
MSCI AC Wrlld, loc.	1,060	1,057	0.2%	Portugal	3.01	3.04	-0.02
MSCI World, loc.	5,822	5,818	0.1%	Ireland	0.86	0.77	0.09
MSCI EM, USD	2,171	2,148	1.1%	Japan	0.08	0.04	0.04
US S&P 500	2,423	2,412	0.5%	Australia	2.60	2.39	0.21
Euro STOXX 600	379.4	390.0	-2.7%	Commodities (USD)			
Germany DAX	12,325	12,615	-2.3%	WTI Crude	46.04	48.56	-5.2%
France CAC 40	5,121	5,284	-3.1%	Brent Crude	48.77	51.09	-4.5%
UK FTSE 100	7,313	7,520	-2.8%	R/B CRB Index	174.8	179.8	-2.8%
Aust S&P/ASX 200	5,721	5,725	-0.1%	Gold spot	1,242	1,269	-2.2%
Japan Topix	1,612	1,568	2.8%	Silver spot	16.63	17.33	-4.0%
China CSI 300	3,667	3,493	5.0%	Copper	269.9	258.0	4.6%
NZX50	7,611	7,419	2.6%	Iron Ore	64.95	57.02	13.9%
Volatility: VIX	11.18	10.41	7.4%	Coking coal	153.50	146.00	5.1%
3-mth Bill Futures				Thermal coal	81.00	73.45	10.3%
NZD Dec-17	97.93	97.98	-0.05	Corn	381.0	380.0	0.3%
AUD Dec-17	98.23	98.35	-0.12	Wheat	526.0	443.8	18.5%
USD Dec-17	98.53	98.61	-0.08	NZX Dairy WMP	3,000	3,150	-4.8%
EUR Dec-17	100.29	100.31	-0.03	NZX Milk Price 2018 NZD	6.45	6.35	1.6%
GBP Dec-17	99.50	99.64	-0.14				

Source: BNZ, Bloomberg

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