

NEW ZEALAND ECONOMICS ANZ MORNING BRIEF

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MARKET SNAPSHOT (07:15 NZ TIME)

	Level		Change
NZD/USD	0.8483	↓	-0.0007
NZD/AUD	0.9070	↓	-0.0022
AUD/USD	0.9343	↑	0.0009
EUR/USD	1.3589	↓	-0.0049
USD/JPY	102.54	↑	0.09
GBP/USD	1.6794	↓	-0.0006
CRB Futures	306.2	↑	1.0
Oil Futures	104.40	↑	1.74
Gold	1253.41	↑	1.18
DJIA	16936	↑	11
S&P 500	1950	↑	0
NASDAQ	4332	↑	16
S&P VIX	11.4	↑	0.7
US 2 year	0.42	↑	0.02
US 10 year	2.61	↑	0.02

KEY DATA RELEASES

	Releases	Act	Exp	Last
EZ	Sentix Consumer Confidence - Jun	8.5	13.3	12.8

WHAT'S AHEAD TODAY

	Releases	Time	Exp.	Last
NZ	ANZ Truckometer (Heavy) – m/m – May	10:00	--	+0.5%
NZ	ANZ Truckometer (Light) – m/m – May	10:00	--	+0.1%
NZ	Mfg Activity (Vol) – q/q – Q1	10:45	--	+5.7%
NZ	Mfg Activity (Val) – q/q – Q1	10:45	--	+6.3%
AU	ANZ-RM Consumer Confidence – 8 Jun	11:30	--	102.2
AU	ANZ Job Advertisements – m/m – May	13:30	--	+2.2%
AU	NAB Business Confidence – May	13:30	--	+6
AU	NAB Business Conditions – May	13:30	--	0
AU	Housing Finance – m/m – Apr	13:30	+0.2%	-0.9%

OUTLOOK

CURRENCY: A number of key Australian and New Zealand macro releases today may generate some action in the AUD and NZD. All eyes will be on the UK industrial production report to drive moves in sterling.

RATES: Some payside interest was evident in the kiwi in the overnight London session. Local rates are expected to open slightly higher in yield.

REVIEW

CURRENCY: The stronger than expected Chinese trade surplus encouraged a grind higher in AUD and NZD yesterday. However, sentiment turned around through the European session and gains were given back as the PBoC selective RRR cut failed to provide additional support.

GLOBAL MARKETS: It was a relatively quiet overnight session with little in the way of significant data releases. Equities continued to nudge higher, although the main US bourses were little changed at time of writing. There was a general grind higher in government bond yields with a tightening in peripheral Eurozone spreads to bunds, with US yields firming across the curve. The only release of note was the euro area Sentix investor sentiment series, which took an unexpected dip to 8.5 in June from 12.8 in May (exp: 13.3). This added further pressure onto EUR/USD, which slipped below 1.36. China announced targeted RRR cuts as expected (see below), with little market reaction. Most commodities moved higher, apart from grains which were under pressure. US corn prices dropped on the news of China banning dried distillers grains imports, because of genetic modification concerns.

KEY THEMES AND VIEWS

CHINA CUTS AGAIN. China remained front and centre in terms of interest with the PBoC announcing that it would conduct another selective reserve requirement ratio cut. The RRR is to be reduced by 50bps for commercial banks, which lend to the agricultural sector and SMEs, effective 16 June. This covers two-thirds of city commercial banks and 80% of rural commercial banks. This is the second selective RRR cut conducted by the central bank this year. On 25 April, the Chinese central bank trimmed the RRR for some rural commercial banks and rural credit co-operatives, but these financial institutions are excluded from the latest cut. The PBoC is also cutting the RRR by 50bps for finance leasing companies, financial corporate and auto financing companies. Our China research team estimate that this action will release RMB70-100bn worth of liquidity into the market. However, they note that as the major banks remain subject to a 20% RRR, borrowing costs will remain high, and as such, the team continues to expect another 50bps RRR cut as soon as Q3.

NZ MANUFACTURING EXPECTED TO BE ROBUST IN Q1. Today the Economic Survey of Manufacturing for Q1 is expected to deliver a strong print for the ex meat and dairy sector, which is expected to follow the lead provided by upbeat sentiment measures. While a NZD above 90 Australian cents is doing exporters no favours, a strengthening construction sector confers significant benefits to the domestic manufacturing sector. Activity data has made a stronger start to 2014 than initially expected. The strong lift in work in place reported last week has led us to revise up our Q1 GDP estimate to a 1.3% expansion.

CURRENCY OUTLOOK AND MARKET TABLES

NZD/USD: Kiwi heavy in the face of USD strength ...

NZD/USD retraced overnight the gains made during yesterday's local session. There are two key domestic macro releases this morning – the ANZ Truckometer (which has been signalling a continued acceleration in the annual pace of economic growth) and Q1 manufacturing activity.

Expected range: 0.8450 – 0.8550

NZD/AUD: Cross loses steam as China data lifts AUD ...

AUD has outperformed NZD so far this week on the back of the China announcements (trade surplus, PBoC targeted RRR cut) of the past 48 hours. Today watch out for a raft of important Australian domestic data releases – key will be the business and consumer confidence data.

Expected range: 0.9030 – 0.9120

NZD/EUR: Weaker than expected sentiment weighs on the euro ...

NZD/EUR has had a positive start to the week following the surprising weakening in euro area investor sentiment in June. With little on the euro area data calendar until Thursday's industrial production figures, NZ domestic data will be the key driver of this cross.

Expected range: 0.6210 – 0.6290

NZD/JPY: Tight USD/JPY range persists ...

The Nikkei continues to support range-trading in USD/JPY rather than inspire any concerted shift higher. Continue to look to NZ events for direction in the cross.

Expected range: 86.60– 87.60

NZD/GBP: Watch for UK industrial production data ...

The kiwi's recovery against sterling remains intact despite a 20 pip retracement lower in the cross during the London session. Tonight's UK industrial production data will be an important driver.

Expected range: 0.5030 – 0.5100

CURRENCY

	Range	USD	NZD
EUR	1.3583-1.3668	1.3589	0.6242
JPY	102.38-102.59	102.54	86.98
GBP	1.6785-1.6831	1.6794	0.5051
CHF	0.8921-0.8979	0.8973	0.7612
CAD	1.0902-1.0930	1.0909	0.9256
AUD	0.9337-0.9363	0.9343	0.9070
NZD	0.8483-0.8529	0.8483	---
TWI	79.16-79.47	---	---

Ranges between 5pm previous day and 6am current day

COMMODITIES AND CREDIT

	Level	Change
Oil futures (US\$/bbl)	104.40	1.74
Oil - Brent (US\$/bbl)	111.34	1.34
Gold (US\$/oz)	1253.41	1.18
CRB Futures Index	306.2	1.0
Baltic Dry Index	989.0	12.0
iTraxx Europe (bps)	58.4	-0.7
iTraxx US (bps)	57.2	0.0
iTraxx Australia (bps)	81.5	-2.0

EQUITIES

	Level	Change
DJIA	16936	11
S&P 500	1950	0
NASDAQ	4332	11
FTSE	6875	17
Nikkei	15124	47
Shanghai A	2126	1
MSCI World	1734	8
ASX 200	5464	0
NZX 50	5187	5

AU INTEREST RATES

	Level	Change
Cash rate	2.50	0.00
90 days	2.71	0.00
3 yr bond	2.93	0.03
10 yr bond	3.83	0.05

NZ INTEREST RATES

	Level	Change
OCR	3.00	0.00
90 day bill	3.45	0.00
15/04/2015	3.40	0.00
15/04/2023	4.36	0.01
1 yr (S)	3.70	0.01
2 yrs (S)	3.98	0.00
3 yrs (S)	4.17	0.02
4 yrs (S)	4.32	0.02
5 yrs (S)	4.43	0.02
7 yrs (S)	4.63	0.02
10 yrs (S)	4.83	0.02

US INTEREST RATES

	Level	Change
Fed Funds	0.25	0.00
3 mth libor	0.23	0.00
2 yr bond	0.42	0.02
10 yr bond	2.61	0.02

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