Amplifying Global FX Capital

Real Time Briefing

4 August 2017

preview of Aust data and NZ MPS

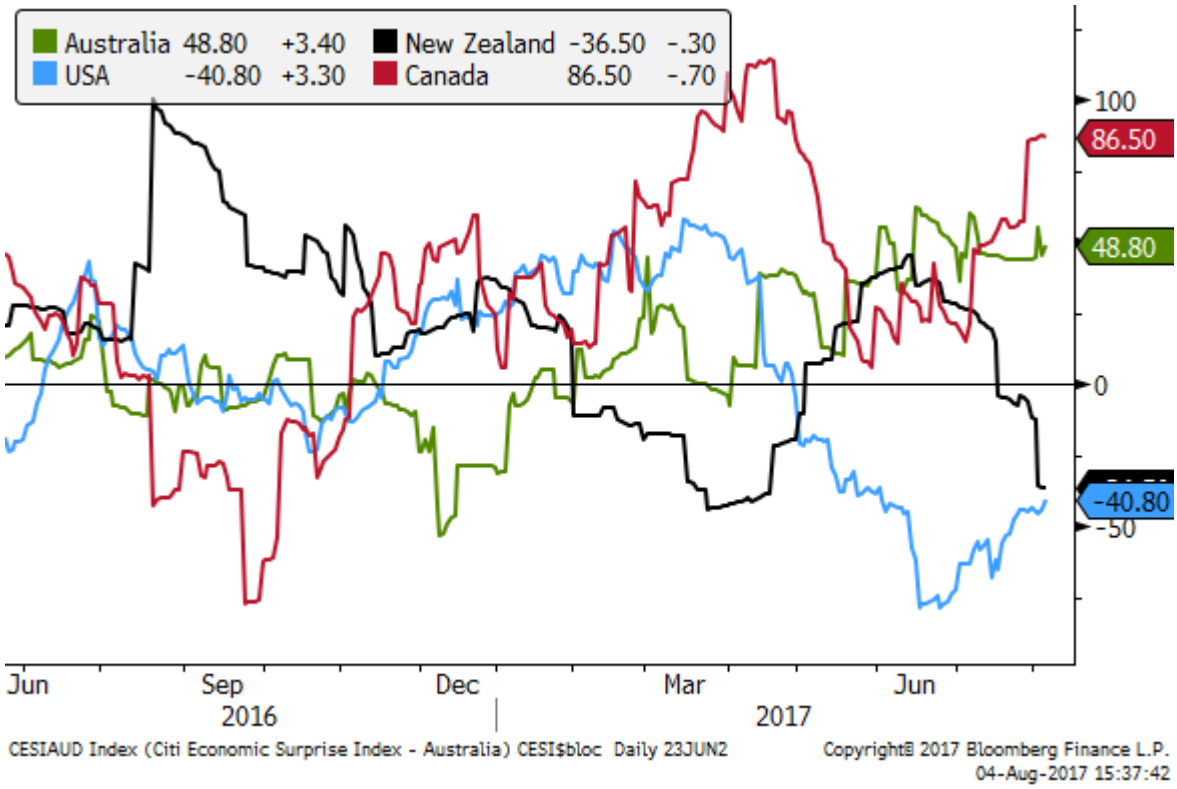
Positions

Long 1.5 units AUD/NZD at 1.0711; s/l 1.0647; t/p 1.1223

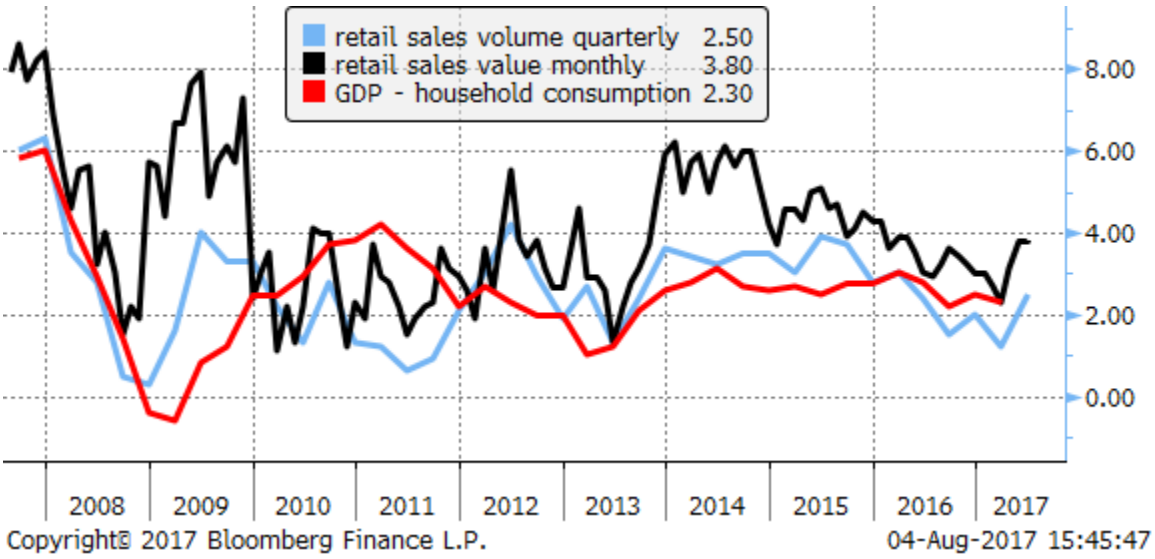
Note that we were stopped out [in profit] of the long EUR/NZD position on Friday,

Deterioration in NZ economic performance

New Zealand economic surprise index has fallen sharply from a peak in mid-June. Australia has been significantly out-performing since Q1.

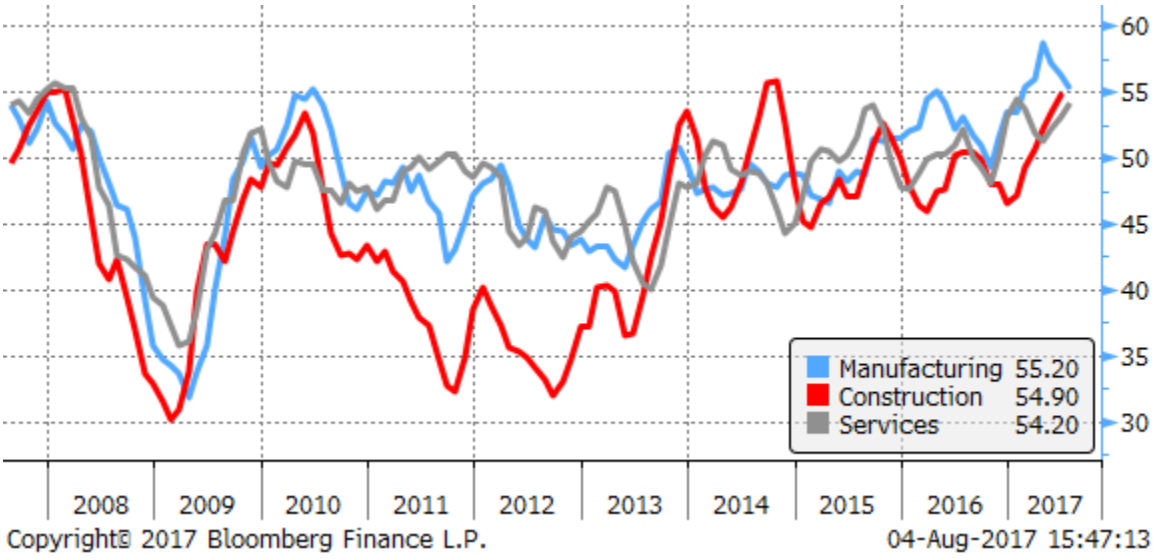


Australia retail sales strong recovery in Q2

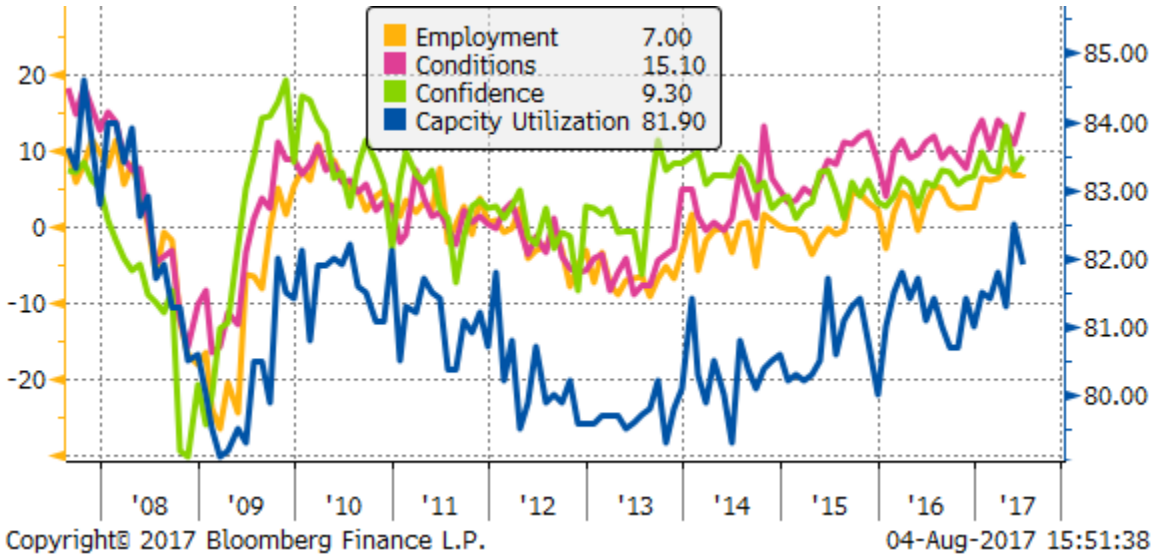


Survey data next week in Australia should be strong

Australian construction PMI due on Monday, but the overall message is a solid broad-based recovery extended into July.



The NAB business survey for July is due on Tuesday. Business conditions were already at a high since 2008 in June. But it may remain strong, and other components may lift.



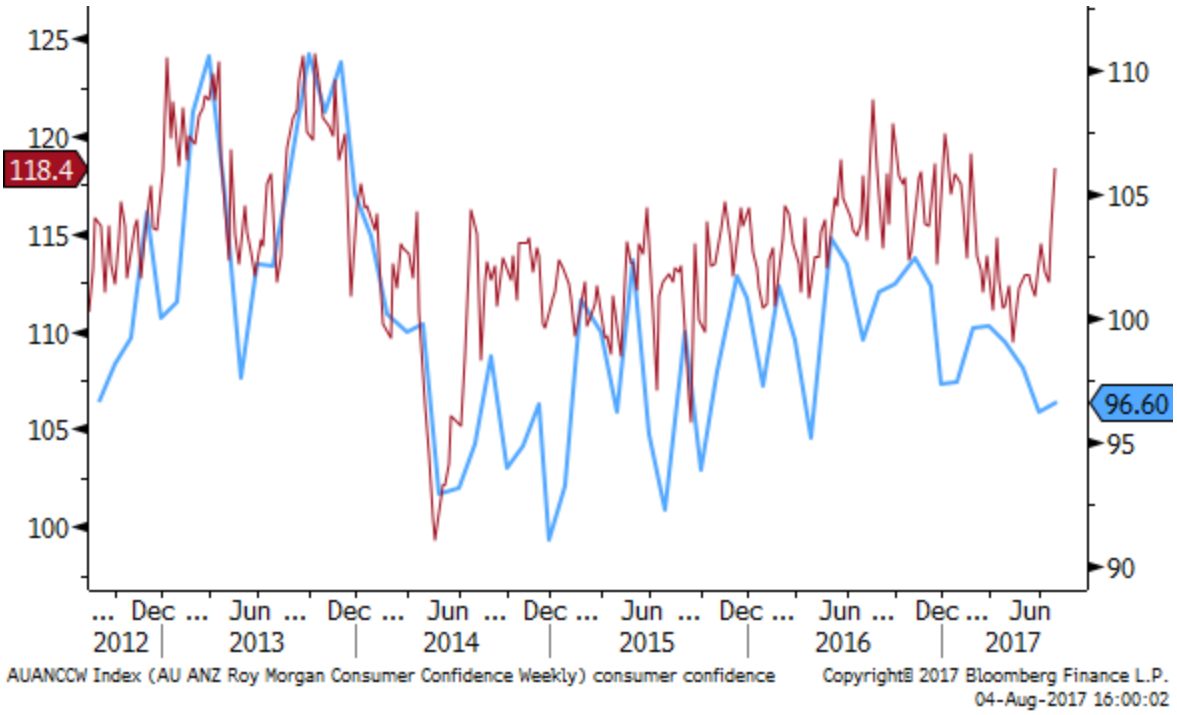
The RBA Statement on Monetary Policy (SoMP) said that "[business] survey measures are at their highest levels since early 2008". And that, "Many of the conditions that would typically be associated with stronger growth in investment are in place, including low interest rates and high capacity utilisation."

It further said, "Some spillover from the large pipeline of public infrastructure activity to private sector investment could also be envisaged."

However, it has forecast, "a relatively gradual increase in non-mining business investment"

The strength in business surveys suggests that the risk is that the RBA is under-estimating the strength in business investment.

Westpac monthly consumer confidence is due this week for July; the recent weekly survey suggests that it may rise sharply



The RBNZ policy statement and MPS are due on Thursday; they may sound more dovish on the exchange rate

The NZD rose sharply after the 22 June policy statement, because the market was looking for a tougher comment against the stronger NZD. The RBNZ said the following;

"The trade-weighted exchange rate has increased by around 3 percent since May, partly in response to higher export prices. A lower New Zealand dollar would help rebalance the growth outlook towards the tradables sector."

While the NZD/USD has risen since the 22-June policy statement, in fact, the NZD TWI has not, it is about the same.

In part, this reflects the recovery in the AUD/NZD exchange rate that essentially hit its low this year after the 22-June RBNZ policy statement. And in the last week, the NZD has fallen back partly helped by the dovish RBA policy statement last week, and a recovery in the USD after the payrolls report.

New Zealand commodity prices have firmed a little further since the 22-June policy statement.

As such, the RBNZ may not change this statement on the exchange rate.

However, the economic growth and inflation outlook have probably been downgraded somewhat since May.

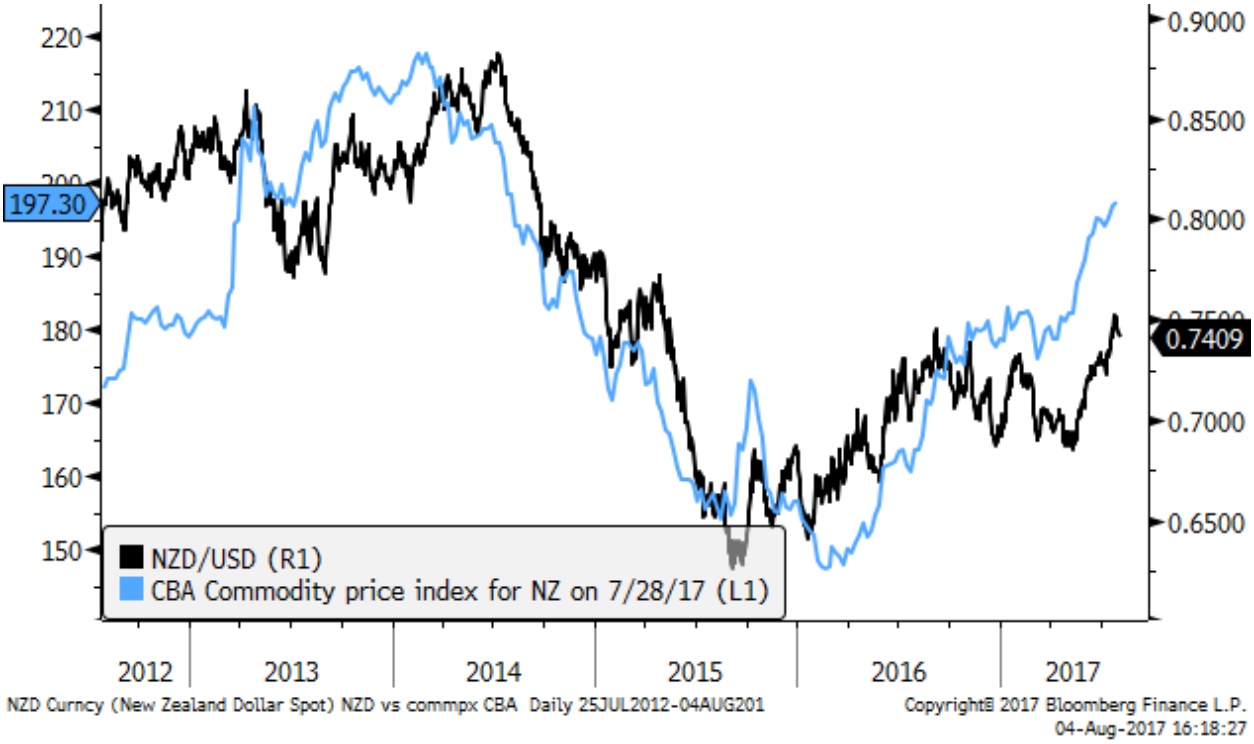
Interest rates are already very low and accommodative, so the RBNZ could argue that a lower exchange rate would be more helpful in achieving its inflation target.

It might look at what the RBA said, and think it could adopt the same language as a way to say, look me too, we don't want a high exchange rate either.

The RBA said, "The Australian dollar has appreciated recently, partly reflecting a lower US dollar. The higher exchange rate is expected to contribute to subdued price pressures in the economy. It is also weighing on the outlook for output and employment. An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast."

NZD/USD, NZD TWI and AUD TWI

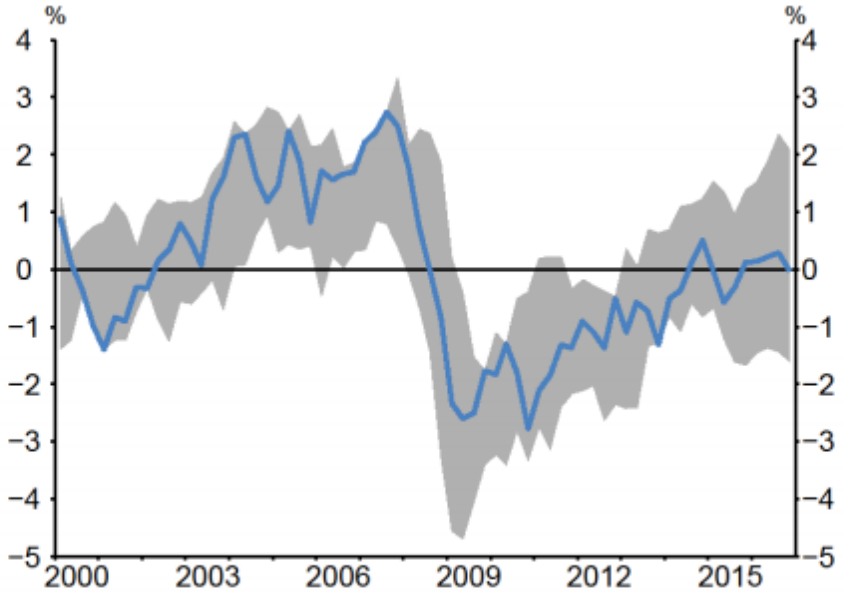
NZ commodity prices support the NZD



The RBNZ already has a pretty conservative outlook for inflation and had no hikes in its forecast profile until late in 2019. So there is not much room to make the statement even more dovish on the rates outlook. But recent economic reports have been weaker than expected, and the outlook is not as strong as it was in May.

In a speech on 26 July, by Assistant Governor McDermott, the RBNZ revealed its current assessment is that the output gap is currently zero, and has dipped recently

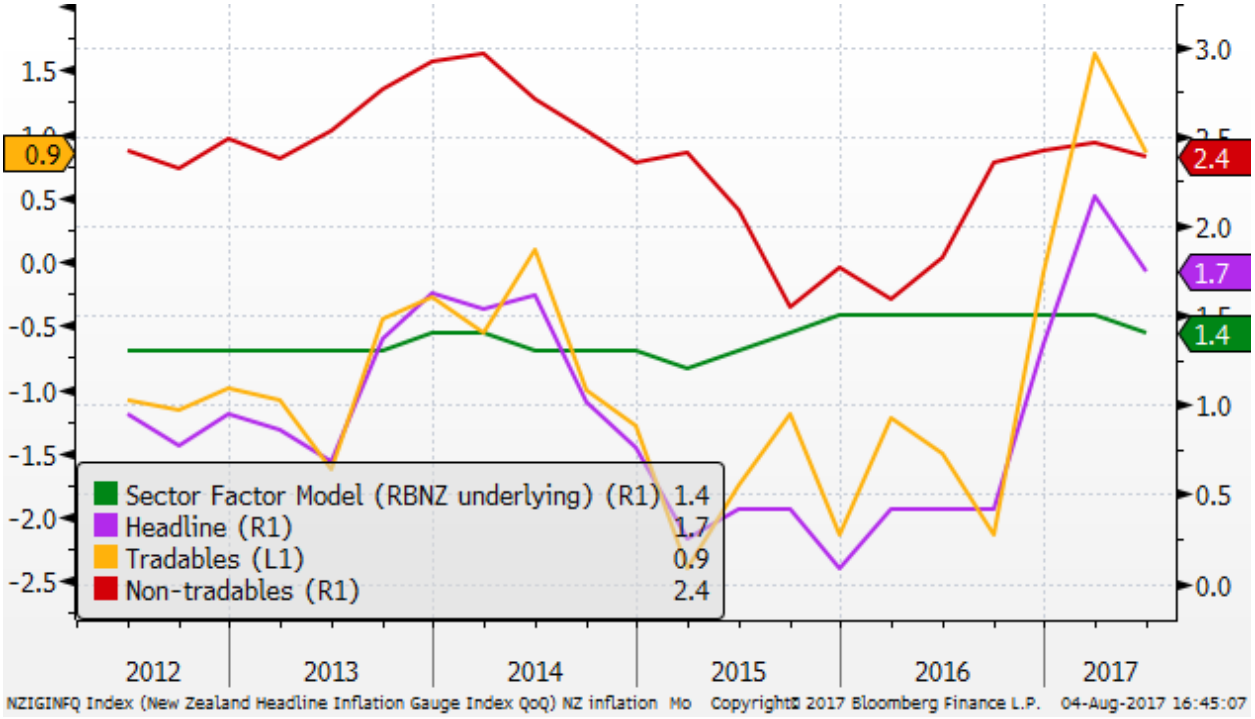
Figure 2: Output Gap Estimates for New Zealand



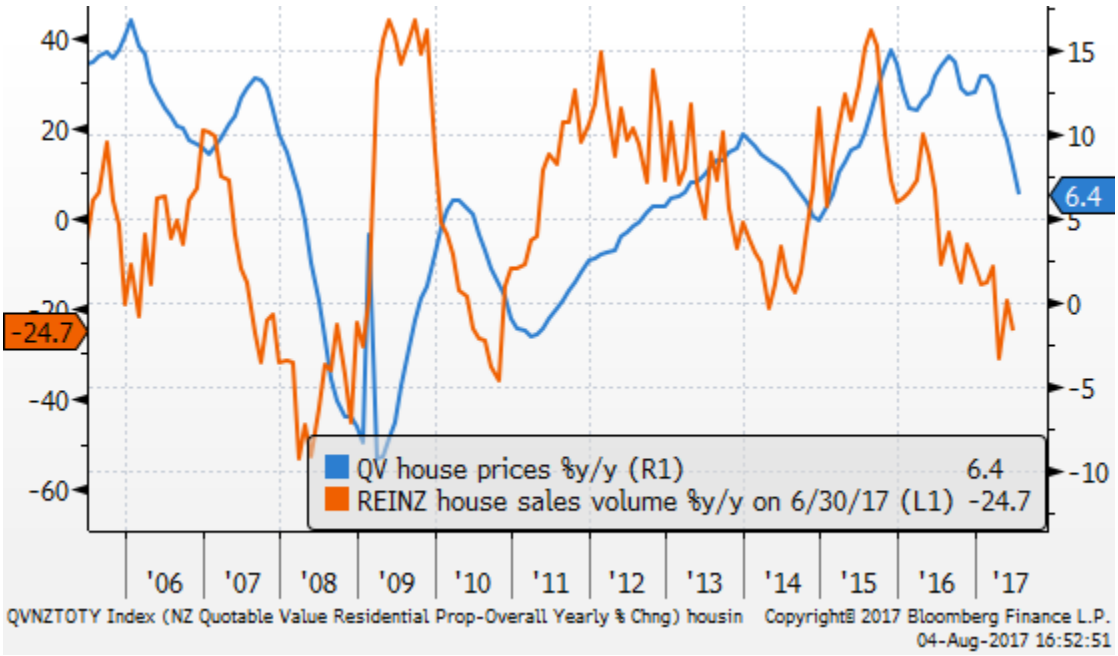
Source: RBNZ estimates.

Note: The output gap is represented as a share of potential output. Shaded area indicates the range

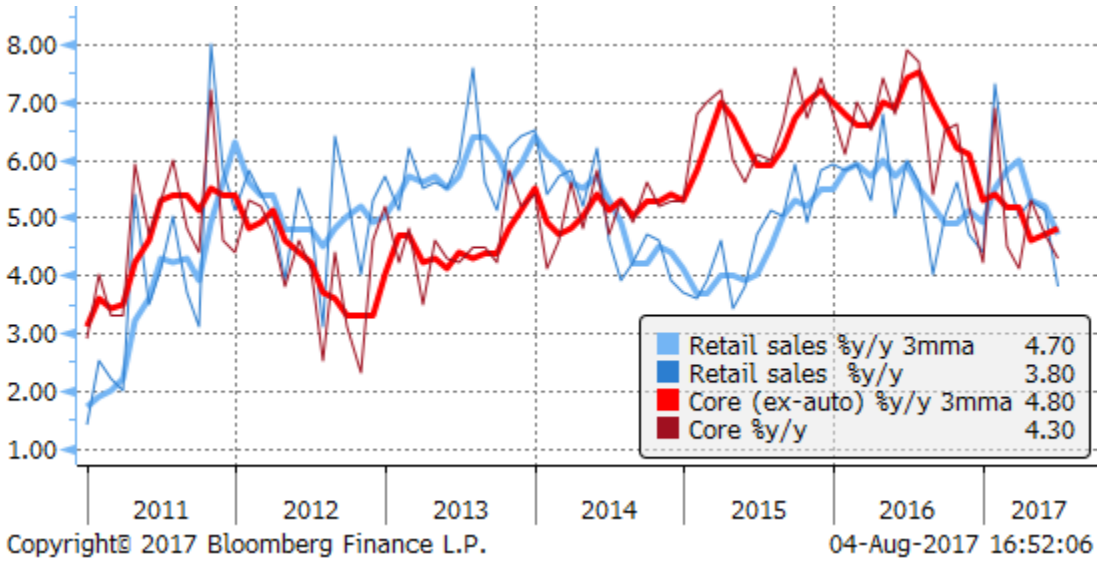
The most recent NZ inflation data for Q2 were weaker than expected, and underlying measures were weaker as well. Wages data remained subdued.



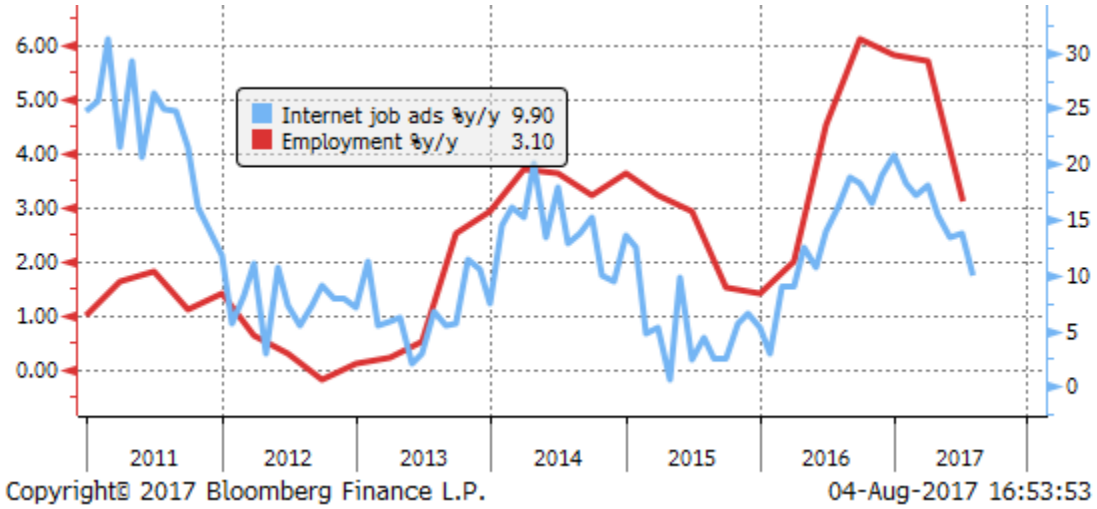
The RBNZ macroprudential measures to slow the housing market have worked well, perhaps better than they had hoped. The housing market is probably weaker than they expected. The construction sector is peaking.



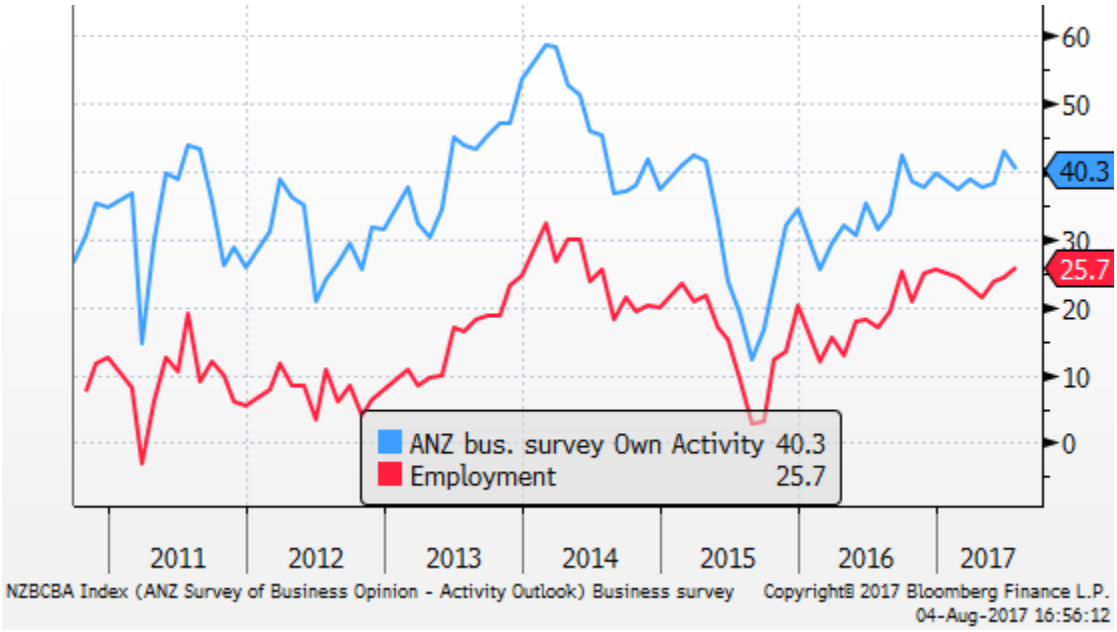
Retail sales have been surprisingly weak

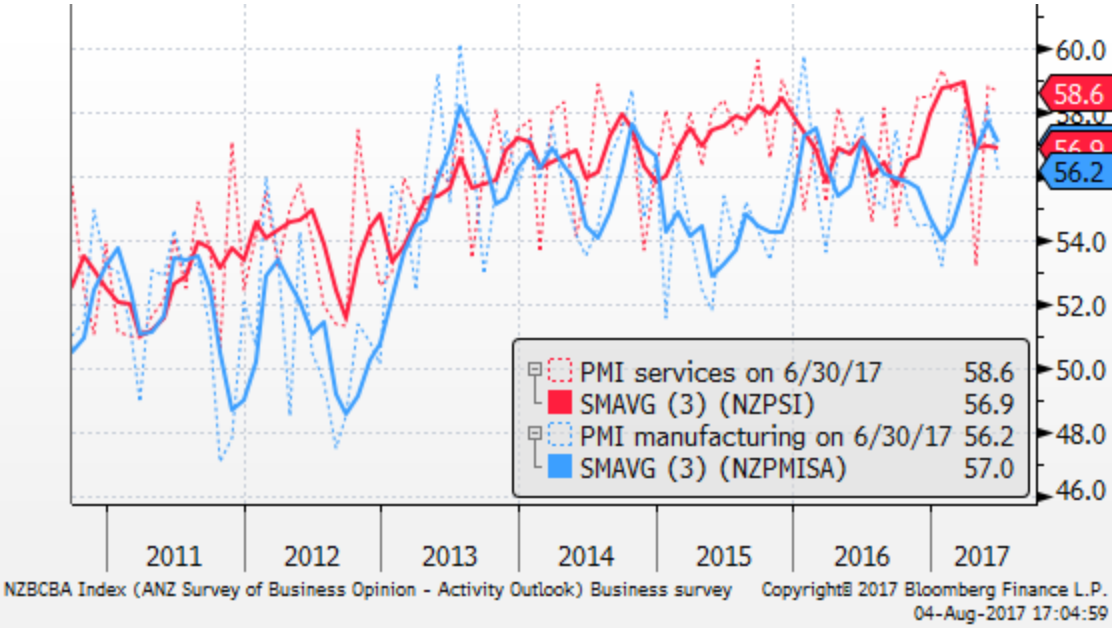


Job ads and employment growth have ebbed, albeit from strong to levels



However, Business and consumer surveys remained at above average levels. The underlying conditions and policy settings do not warrant turning pessimistic on the growth outlook.

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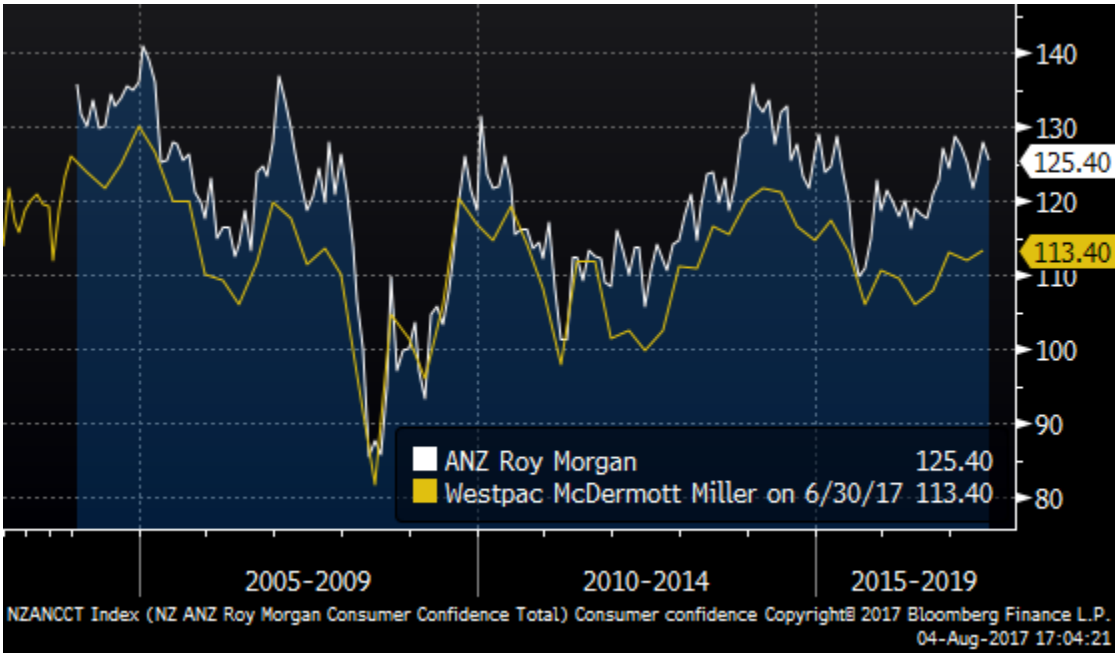
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