

1 February 2018



## Events Round-Up

JN: Industrial production (y/y%), Dec: 4.2 vs. 3.3 exp.  
UK: GfK consumer confidence, Jan: -9 vs. -13 exp.  
AU: CPI trimmed mean (q/q%), Q4: 0.4 vs. 0.5 exp.  
AU: CPI weighted median (y/y%), Q4: 0.4 vs. 0.4 exp.  
CH: Non-manufacturing PMI, Jan: 55.3 vs. 54.9 exp.  
CH: Manufacturing PMI, Jan: 51.3 vs. 51.6 exp.  
GE: Unemployment rate (%), Jan: 5.4 vs. 5.4 exp.  
EC: Unemployment rate (%), Dec: 8.7 vs. 8.7 exp.  
EC: Core CPI Core (y/y%), Jan: 1.0 vs. 1.0 exp.  
US: ADP employment change ('000), Jan: 234 vs. 183 exp.  
US: Employment cost index (q/q%), Q4: 0.6 vs. 0.6 exp.  
US: Chicago purchasing manager, Jan: 65.7 vs. 64.0 exp.  
US: Pending home sales (m/m%), Dec: 0.5 vs. 0.5 exp.

## Good Morning

US 10-year Treasury yields nudged up to a fresh high but US equities are unperturbed today, following the nearly 2% loss in the S&P500 seen over the previous couple of sessions. Currencies haven't changed much since the local close, but for the day as a whole, the NZD has performed well amidst a mildly softer USD backdrop.

President Trump's State of the Nation speech didn't contain much relevant for the market. As forewarned, he set aside his more combative tone for one of compromise and bipartisanship. There has been a lot of economic data released over the past 24 hours, with much of it in line with market expectations or not significant enough to rattle the market. US ADP employment was strong, supporting market expectations for solid employment growth in Friday's payrolls report and there was no smoking gun in the employment cost report, with wage inflation remaining modest. Stronger than expected French CPI data offset yesterday's soft German result, seeing euro-area core CPI inflation in line, still well-below target at 1.0% y/y.

A more significant market reaction came following Australian CPI data yesterday afternoon. Quarterly measures were slightly lower than expected, and the miss wasn't particularly significant, but the AUD came under pressure nevertheless, seeing the AUD fall half a cent to 0.8050. This was recouped as a bout of USD weakness

returned last evening, but a reversal of that move in the last couple of hours sees AUD back down to 0.8060.

Traders closed long AUD/NZD positions, which saw a boost to the NZD, seeing it move up on all the crosses. NZD/AUD moved on a higher plane to around 0.9140 after the Australian CPI result and has stayed there since. A softer USD track saw the NZD reach as high as 0.7420, and a USD recovery since then has pushed the NZD back down to 0.7370. There was some remarkable price action for NZ equities yesterday, down 0.6% in the morning following the weak guide from offshore markets, before a surge of buying in the afternoon saw a more than 2% turnaround, closing up 1.7% for the day. Some NZD buying might have been related to this move.

Moves in EUR and GBP have largely been driven by the swing in the USD. JPY has been the weakest of the majors, which sees USD/JPY up to 109.30 and NZD/JPY up 1% for the day to 80.6. Governor Kuroda reiterated his pledge to lawmakers to achieve the 2% inflation target as soon as possible by "persistently continuing with monetary easing". Deputy Governor Iwata reinforced that and attempted to jawbone the Yen lower. The BoJ also offered to buy more bonds at a regular operation for the first time since July, a necessary move for its yield curve control policy to keep the 10-year rate below 0.1% amidst a rising global bond yield environment.

The quarterly refunding announcement by the US Treasury was in line with expectations, with a lift in the size of 2-3yr bond auctions by \$2bn per month and all maturities beyond by \$1bn per month, equating to an extra \$42bn of new issuance for the coming quarter. Nevertheless, yields have since risen after the announcement, seeing the US 10-year Treasury rate reach as high as 2.745%.

Fed Chair Yellen's final FOMC meeting this morning isn't expected to throw up any surprises. There's a chance that some of the language on growth and inflation is slightly more positive, while keeping alive the prospect of the next hike being in March, which is nearly fully priced.

The local rates market yesterday was caught between two opposing forces, higher US rates and lower Australian rates following the CPI-miss. The net result was a small fall in rates across much of the swap curve and NZ government rates down 2-3bps across the curve.

Following the FOMC announcement at 8am this morning there are a few minor bits and pieces on the calendar,

with the US ISM manufacturing release tonight the most noteworthy.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

Coming Up

	Period	Cons.	Prev.	NZT
US Fed Funds Rate (upper bound)	Jan	1.5	1.5	08:00
AU Building approvals (m/m%)	Dec	-7.6	11.7	13:30
NZ NZ to sell \$100m 2040 I/L bonds				14:05
CH Caixin PMI manufacturing	Jan	51.5	51.5	14:45
UK Markit PMI manufacturing	Jan	56.5	56.3	22:30
US Nonfarm productivity (ann. q/q%)		0.7	3.0	02:30
US Construction spending (m/m%)	Dec	0.4	0.8	04:00
US ISM manufacturing	Jan	58.6	59.7	04:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price				
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day
NZD	0.7368	+0.5	0.7366	0.7420	CHF	0.9325	-0.2	S&P 500	2,829	+0.2	24.1		Oil (Brent)	68.88	-0.2
AUD	0.8055	-0.3	0.8056	0.8117	SEK	7.879	-0.2	Dow	26,213	+0.5	32.0		Oil (WTI)	64.33	-0.3
EUR	1.2418	+0.1	1.2412	1.2475	NOK	7.715	-0.1	Nasdaq	7,422	+0.3	32.2		Gold	1339.9	+0.3
GBP	1.4188	+0.3	1.4122	1.4233	HKD	7.822	+0.0	Stoxx 50	3,609	+0.1	11.7		HRC steel	731.0	+1.5
JPY	109.33	+0.5	108.60	109.43	CNY	6.289	-0.6	FTSE	7,534	-0.7	6.1		CRB	197.0	-0.6
CAD	1.2317	-0.2			SGD	1.312	-0.0	DAX	13,189	-0.1	14.3		Wheat Chic.	463.5	-1.5
NZD/AUD	0.9147	+0.8			IDR	13,386	-0.4	CAC 40	5,482	+0.2	15.4		Sugar	13.27	-3.3
NZD/EUR	0.5933	+0.4			THB	31.34	-0.3	Nikkei	23,098	-0.8	20.6		Cotton	77.76	+0.9
NZD/GBP	0.5193	+0.2			KRW	1,068	-0.6	Shanghai	3,481	-0.2	10.2		Coffee	122.2	-0.1
NZD/JPY	80.55	+1.0			TWD	29.14	-0.3	ASX 200	6,038	+0.2	6.8		WM powder	3200.0	+0.3
NZD/CAD	0.9075	+0.4			PHP	51.34	-0.1	NZX 50	8,442	+1.7	19.7		<b>Australian Futures</b>		
NZ TWI	75.15	+0.5											3 year bond	97.79	0.06
													10 year bond	97.16	0.02

  

Interest Rates							
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	
USD	1.50	1.77	2.33	2.76	USD	2.73	0.01
AUD	1.50	1.78	2.05	3.00	AUD	2.81	-0.05
NZD	1.75	1.89	2.18	3.25	NZD	2.90	-0.02
EUR	0.00	0.06	-0.12	1.07	GER	0.70	0.01
GBP	0.50	0.52	0.96	1.59	GBP	1.51	0.05
JPY	-0.04	-0.04	0.06	0.30	JPY	0.09	-0.01
CAD	1.25	1.17	2.21	2.64	CAD	2.30	0.00

  

NZ Swap Yields		
	Last	
1 year	1.97	-0.00
2 year	2.18	-0.01
5 year	2.72	-0.00
7 year	2.99	-0.00
10 year	3.25	-0.01
15 year	3.50	-0.01

\* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:50

Source: Bloomberg

## Contact Details

**Jason Wong**

Senior Markets Strategist  
+64 4 924 7652

**Nick Smyth**

Interest Rate Strategist  
+64 4 924 7653

## National Australia Bank

**Ray Attrill**

Head of FX Strategy  
+61 2 9237 1848

**Rodrigo Catril**

Currency Strategist  
+61 2 9293 7109

**Gavin Friend**

Senior Markets Strategist  
+44 20 7710 2155

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