

1 March 2018



Events Round-Up

NZ: Net Migration, Jan: 6210 vs. 5700 prev.
NZ: ANZ Own Activity, Feb: 20.4 vs. 15.6 prev.
CH: Manufacturing PMI, Feb: 50.3 vs. 51.2 exp.
GE: Unemployment rate, Feb: 5.4% vs. 5.4% exp.
EZ: Core-CPI, Feb: 1.0% vs. 1.0% exp.
US: GDP (q/q% annualised), Q4: 2.5% vs. 2.5% exp.
US: Core PCE deflator (q/q%, annualised), Q4: 1.9% vs. 1.9% exp.
US: Chicago PMI, Feb: 61.9 vs. 64 exp.

Good Morning

US equity markets have consolidated overnight after falling in response to Fed Chair Powell's hawkish comments yesterday. The 10 US Treasury yield has fallen back from the highs reached yesterday, with the yield curve flattening. The USD is a little stronger overnight, while the GBP has fallen as tensions mount between the EU and UK over Brexit.

Powell's comments yesterday led to an immediate 5bp jump in US Treasury yields, with the 10 year yield closing at 2.90%. The 10 year yield has fallen back a little overnight, to 2.88% (possibly aided by month-end buying) although the 2 year rate has been steady, at 2.26%, resulting in the yield curve flattening.

Some consolidation in 10 year yields was always likely ahead of the 'taper tantrum' highs of 3.05%, particularly given the speed of the move this year and what appears to be heavy short positioning among speculative investors. The key releases that could provide a catalyst for a further push higher in Treasury yields are next Friday's US non-farm payrolls (with wages in focus) and CPI on the 14th March. Further upside surprises to wages and inflation will see speculation intensify that the Fed will lift its 2018 'dots' to include a 4th hike. Powell testifies before the Senate tonight although we suspect he's unlikely to provide any additional (market moving) insights to yesterday.

US equity markets reacted negatively to Powell's comments yesterday but they have stabilised overnight (the major US indices up modestly). The strong global growth backdrop (and low risk of recession) remains supportive of equities although, for now, they are taking

their cue from US Treasury yields.

The USD is a little stronger overnight, extending its gains made in response to Powell's comments. The EUR made a 6 week low, and currently sits just above 1.22. Eurozone core CPI met expectations at 1%, well below the ECB's target. That shouldn't deter the central bank from amending its forward guidance at next week's meeting (likely signalling an end to QE later this year).

The GBP was the worst performing currency overnight after the EU released its draft legal agreement for Brexit. The draft document outlined a 'backstop' arrangement for the Irish Border which would see Northern Ireland remain in the Customs Union (effectively creating a border between the UK and Northern Ireland). Theresa May responded in parliament by saying "no UK prime minister could ever agree to it". The UK government hopes to agree a transitional arrangement with the EU at the March 22nd EU Summit, but the risk is growing that the dispute over the Irish border causes this to be delayed. Theresa May is due to outline her vision for Brexit in a speech on Friday where she is widely expected to make a proposal for 'managed divergence' between the UK and the EU (something EU Council President Tusk has already slammed as "pure illusion").

The JPY was the best performing currency overnight, possibly due to the BoJ's decision to reduce the amount of long-dated JGBs in their purchase operations. When the BoJ announced a similar reduction earlier this year, there was a sharp reaction in both the JPY and global bonds, as market participants fretted that the move could signal the start of the BoJ stepping back from QE. While the yen strengthened overnight, there was little market reaction in bond markets, with the market seemingly reassured that the BoJ's 'Yield Curve Control' policy will remain in place for some time, despite occasional technical adjustments to the purchase amounts.

The NZD is a touch lower than this time yesterday, at 0.7215 – three week lows. The NZD declined slightly after the release of the ANZ Business Survey yesterday which showed a modest pick-up in expectations but some softening in the inflation indicators. Swap yields rose modestly yesterday in response to the moves in the US.

In Australia, the ABS Capital Expenditure (capex) data are released today and expected to show a solid 1% increase on the quarter. Our colleagues in NAB changed their RBA cash rate view yesterday and now see only one hike from

the central bank this year, likely November (previously they had seen two rate hikes in 2018).

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Terms of Trade Index QoQ	4Q	0.5	0.7	10:45
AU	Private Capital Expenditure	4Q	1%	1%	13:30
CH	Caixin China PMI Mfg	Feb	51.3	51.5	14:45
UK	UK PMI Manufacturing	Feb	55	55.3	22:30
EC	Unemployment Rate	Jan	8.6	8.7	23:00
US	Core PCE Deflator YoY	Jan	1.5	1.5	02:30
US	Fed's Powell Testifies Before Senate Banking Committee				04:00
US	ISM Manufacturing	Feb	58.6	59.1	04:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**					
Indicative overnight ranges (*)					Other FX		Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7214	-0.3	0.7210	0.7242	CHF	0.9442	+0.6		S&P 500	2,748	+0.3	16.3	Oil (Brent)	65.98	-0.8
AUD	0.7787	-0.0	0.7785	0.7819	SEK	8.271	+0.6		Dow	25,427	+0.0	22.2	Oil (WTI)	62.58	-0.5
EUR	1.2205	-0.2	1.2188	1.2242	NOK	7.882	+0.2		Nasdaq	7,365	+0.5	26.4	Gold	1321.2	+0.2
GBP	1.3781	-0.9	1.3772	1.3916	HKD	7.826	-0.0		Stoxx 50	3,439	-0.6	3.6	HRC steel	805.0	-0.4
JPY	106.74	-0.5	106.57	107.27	CNY	6.331	+0.2		FTSE	7,232	-0.7	-0.4	CRB	194.9	-0.1
CAD	1.2818	+0.3			SGD	1.323	-0.1		DAX	12,436	-0.4	5.1	Wheat Chic.	508.8	+3.3
NZD/AUD	0.9264	-0.3			IDR	13,751	+0.5		CAC 40	5,320	-0.6	9.5	Sugar	13.31	+3.7
NZD/EUR	0.5911	-0.1			THB	31.47	-0.0		Nikkei	22,068	-1.4	13.8	Cotton	82.85	+0.7
NZD/GBP	0.5235	+0.6			KRW	1,083	+1.1		Shanghai	3,259	-1.0	0.4	Coffee	122.1	+0.8
NZD/JPY	77.00	-0.8			TWD	29.28	+0.2		ASX 200	6,016	-0.7	5.5	WM powder	3215.0	+0.0
NZD/CAD	0.9247	+0.0			PHP	52.16	-0.1		NZX 50	8,374	+0.2	17.1	Australian Futures		
NZ TWI	74.53	-0.1											3 year bond	97.9	0.00
													10 year bond	97.22	0.00

Interest Rates													
	Rates				Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last		
USD	1.50	2.01	2.54	2.90	USD	2.88	-0.01	NZGB 3 04/15/20	1.89	0.01	1 year	2.03	0.00
AUD	1.50	1.79	2.04	2.94	AUD	2.81	0.05	NZGB 6 05/15/21	2.07	0.02	2 year	2.20	0.01
NZD	1.75	1.92	2.20	3.23	NZD	2.95	0.03	NZGB 5 1/2 04/15/23	2.42	0.02	5 year	2.72	0.01
EUR	0.00	0.06	-0.12	1.09	GER	0.66	-0.02	NZGB 2 3/4 04/15/25	2.74	0.03	7 year	2.98	0.02
GBP	0.50	0.58	1.03	1.59	GBP	1.50	-0.06	NZGB 4 1/2 04/15/27	2.95	0.03	10 year	3.23	0.02
JPY	-0.05	-0.06	0.05	0.27	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.31	0.04	15 year	3.48	0.02
CAD	1.25	1.17	2.16	2.59	CAD	2.25	-0.03	NZGB 2 3/4 04/15/37	3.45	0.04			

* 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 07:13

Source: Bloomberg

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