

2 February 2018



Events Round-Up

US: Fed Funds Rate (upper bound), Jan: 1.5 vs. 1.5 exp.
AU: Building approvals (m/m%), Dec: -20.0 vs. -7.6 exp.
CH: Caixin PMI manufacturing, Jan: 51.5 vs. 51.5 exp.
UK: Markit PMI manufacturing, Jan: 55.3 vs. 56.5 exp.
US: Nonfarm productiv. (ann. q/q%), Q4: -0.1 vs. 0.7 exp.
US: Construction spending (m/m%), Dec: 0.7 vs. 0.4 exp.
US: ISM manufacturing, Jan: 59.1 vs. 58.6 exp.

Good Morning

The start of the new month sees more of the same, with broadly-based USD weakness, albeit modest, upward pressure on global bond rates and US equities up.

Yesterday's FOMC statement has been analysed to the nth degree with the conclusion that the Fed remains well on track to deliver further gradual rate increases this year, including a near-certain chance that the next hike will be delivered next month. With no real surprise to the tweaks made to the statement, market reaction was limited.

There hasn't been much reaction to economic data released either. The key US ISM manufacturing index was stronger than expected, leaving it close to a historically high level and indicating strength in manufacturing growth. The final euro-area PMIs remained near-record levels. Meanwhile, the UK remained an outlier in a world of strong growth momentum, with manufacturing PMI data undershooting expectations, dropping to a 7-month low.

The USD remains weaker regardless, seeing the various USD indices down around 0.3% for the day. Everyone is doing the same thing as we're doing – wondering how much more downside the USD has, given key technical levels have broken and the next area of support more than 10% lower than the current level. Either something comes along and triggers a reversal, the view that it might be currently oversold, or selling pressure continues for some time yet with the endgame being a full unwinding of the strong rally we saw back in 2014/15.

With a weaker USD in the driving seat, NZD finds itself back up to the 0.74 mark. Key resistance is around 0.7440, with a break of that opening up last year's high of 0.7560 as an area of interest. The NZD still seems to be benefiting from some reduction in long AUD/NZD

positions that have come after the marginally softer than expected Australian CPI on Wednesday, with the AUD losing ground to the USD, taking it down to 0.8030. NZD/AUD has been on a steady upward trajectory since that CPI release and it currently sits at 0.9210, near the top of the range it has traded over the past couple of months.

EUR is back up probing the 1.25 mark. The ECB's Nowotny has just come out saying that the ECB should end the bond-buying programme, although EUR was well up prior to that comment. Earlier, Bloomberg ran a story that some ECB officials are said to want to provide the market clearer guidance on interest rates. The current party line is that interest rates won't increase until "well-past" the end of the asset purchase programme.

GBP has largely managed to keep pace with EUR despite the soft UK data and negative Brexit headlines. The two most read stories on the FT have the headlines "EU rejects Brexit trade deal for UK finance sector" and "EU moves to stop post-Brexit bonfire of regulation". Talk is toughening up on Brexit negotiations but we still expect a transitional deal to get negotiated next month which will help take Brexit off the front pages and support GBP. GBP/USD is up to 1.4240 while NZD/GBP is steady just below 0.52.

JPY is on the soft side, alongside the AUD, with USD/JPY up to 109.50. This might reflect a toning down of expectations that the BoJ will be changing its policy guidance anytime soon after recent testimony by the Governor and Deputy Governor.

US 10-year Treasuries have been range bound around 2.72-2.75%. In the immediate aftermath of the FOMC statement, the rate hit a fresh high of 2.75%. There have since been a couple of attempts to break higher, but that has failed, so far. Germany's 10-year rate was up 2bps to a 2-year high of 0.72% and the UK 10-year reached a fresh high as well, up to 1.53%. Global forces saw NZ 5-10 year bond yields from nudge up 2bps while rises across the swap curve were less than 1bp.

There are a few second-tier economic releases for NZ this morning but the main focus will be the US employment report tonight. Indicators point to a strong nonfarm payrolls figure but the focus will be on the wages figure. The timing of the survey is expected to impart some downside bias to the monthly change, while the annual increase is expected to tick up to 2.6% – no smoking gun to adjust monetary policy expectations if that's the result.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ ANZ consumer confidence	Jan		121.8	10:00
NZ Building permits (m/m%)	Dec		10.8	10:45
NZ Net migration	Dec		5610	10:45
UK Markit construction PMI	Jan	52.0	52.2	22:30
US Change in nonfarm payrolls ('000)	Jan	180	148	02:30
US Unemployment rate (%)	Jan	4.1	4.1	02:30
US Average hourly earnings (y/y%)	Jan	2.6	2.5	02:30

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	0.7388	+0.3	0.7334	0.7404	CHF	0.9287	-0.3		S&P 500	2,832	+0.3	24.2	Oil (Brent)	69.40	+0.7					
AUD	0.8027	-0.3	0.7988	0.8052	SEK	7.856	-0.3		Dow	26,278	+0.5	32.1	Oil (WTI)	65.48	+1.2					
EUR	1.2483	+0.6	1.2385	1.2498	NOK	7.662	-0.6		Nasdaq	7,428	+0.2	31.6	Gold	1342.0	+0.2					
GBP	1.4240	+0.3	1.4160	1.4275	HKD	7.821	-0.0		Stoxx 50	3,577	-0.9	9.8	HRC steel	722.0	-1.2					
JPY	109.53	+0.3	109.23	109.75	CNY	6.296	+0.1		FTSE	7,490	-0.6	5.4	CRB	197.9	+0.3					
CAD	1.2284	-0.3			SGD	1.309	-0.2		DAX	13,004	-1.4	11.5	Wheat Chic.	462.3	-0.5					
NZD/AUD	0.9204	+0.7			IDR	13,424	+0.3		CAC 40	5,455	+0.3	13.8	Sugar	13.32	+0.9					
NZD/EUR	0.5918	-0.2			THB	31.32	-0.0		Nikkei	23,486	+1.7	24.2	Cotton	78.89	+1.9					
NZD/GBP	0.5188	-0.0			KRW	1,072	+0.4		Shanghai	3,447	-1.0	9.1	Coffee	121.1	-0.7					
NZD/JPY	80.92	+0.6			TWD	29.20	+0.2		ASX 200	6,090	+0.9	7.9	WM powder	3225.0	+1.1					
NZD/CAD	0.9075	+0.1			PHP	51.58	+0.5		NZX 50	8,384	-0.7	18.9	Australian Futures							
NZ TWI	75.46	+0.4											3 year bond	97.825	0.03					
													10 year bond	97.17	-0.02					
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	Net Day		Last	Net Day		Last	Net Day				
USD	1.50	1.78	2.35	2.78	USD	2.74	0.04		NZGB 3 04/15/20	1.93	0.00		1 year	1.97	0.00					
AUD	1.50	1.77	2.02	2.99	AUD	2.80	-0.01		NZGB 6 05/15/21	2.12	0.00		2 year	2.18	0.00					
NZD	1.75	1.89	2.17	3.26	NZD	2.92	0.02		NZGB 5 1/2 04/15/23	2.42	0.02		5 year	2.73	0.00					
EUR	0.00	0.06	-0.13	1.10	GER	0.72	0.02		NZGB 2 3/4 04/15/25	2.71	0.02		7 year	2.99	0.00					
GBP	0.50	0.52	0.96	1.62	GBP	1.53	0.02		NZGB 4 1/2 04/15/27	2.92	0.02		10 year	3.26	0.00					
JPY	-0.05	-0.04	0.06	0.32	JPY	0.10	0.02		NZGB 3 1/2 04/14/33	3.28	0.02		15 year	3.50	0.00					
CAD	1.25	1.17	2.22	2.68	CAD	2.35	0.06		NZGB 2 3/4 04/15/37	3.43	0.02									

* 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 06:52

Source: Bloomberg

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