

2 March 2018



Events Round-Up

- NZ: Terms of Trade (q/q%), Q4: 0.8% vs. 0.5% exp.
- AU: Private Capital Expenditure (q/q%), Q4: -0.2% vs. 1% exp.
- CH: Caixin Manufacturing PMI, Feb: 51.6 vs. 51.3 exp.
- UK: Manufacturing PMI, Feb: 55.2 vs. 55 exp.
- EZ: Unemployment Rate, Jan: 8.6% vs. 8.6% exp.
- US: Core PCE deflator (y/y%), Jan: 1.5% vs. 1.5% exp.
- US: ISM Manufacturing, Feb: 60.8 vs. 58.6 exp.

Good Morning

US equities have fallen again overnight, and this has caused US Treasury yields to decline slightly. President Trump announced he was going to impose tariffs on steel and aluminium imports, overshadowing a very strong ISM Manufacturing Survey. Meanwhile, there was a slightly more dovish tone to Fed Chair Powell's testimony to the Senate. The USD is mixed overnight, with the NZD one of the stronger performing currencies.

After falling sharply into the New York close yesterday, US equities are again weaker today. The S&P500 is over 1% lower and at two week lows. US President Trump said he was going to impose a 25% tariff on US imports of steel and a 10% tariff on aluminium, which may have weighed on equity markets. Presidents Bush and Obama also imposed tariffs on imported steel during their terms, although Obama targeted Chinese imports specifically, and Bush excluded Canada (the US's largest foreign supplier of steel) and Mexico. A 'trade war' is an obvious risk to the global growth outlook, although the announcement could be seen as an attempt by the President to appease some of his core group of supporters ahead of the US mid-term elections this year. It's definitely one to watch.

Fed Chair Powell testified in front of the Senate overnight and struck a slightly more dovish tone than two days ago. While reiterating his intention to proceed gradually with rate hikes, he noted "*there is no evidence the economy is overheating*" adding he expected "*that some continued strengthening in the labor market can take place without causing inflation.*" Powell said he didn't see "*any strong evidence yet of a decisive move up in wages.*" The US non-farm payrolls release next Friday, and in particular the wages number, will likely be decisive in setting

expectations for the Fed 'dots' at the March meeting.

Meanwhile, New York Fed President Dudley said his confidence in the US economy had grown stronger but "*whether that necessitates a faster pace of tightening, I think that remains to be seen.*" He did say though that he would still class four hikes this year as "*gradual*".

The US 10 year Treasury yield has fallen 3bps to 2.83%. The ISM Manufacturing Survey initially boosted US yields a few basis points, with the index hitting its highest level since 2004 and suggestive of very strong growth in the manufacturing sector. Additionally, all the key subcomponents of the Survey were strong with the 'prices paid' index rising to its highest level since 2011 and, encouragingly ahead of payrolls, the employment index also rising to near multi-year highs. But the fall in equity markets over the past hour has caused US Treasury yields to decline to near the day's lows.

The USD was mixed overnight, rising against the yen and the Canadian dollar (the latter probably affected by the Trump's comments on applying tariffs to steel imports). The USD has fallen slightly against the EUR and the NZD.

The NZD is the second best performing currency the past 24 hours. Having reached a low of 0.7186 late yesterday afternoon, the NZD bounced to as high as 0.7254 a few hours ago, although it has since eased back to 0.7230. The NZDAUD has also rebounded to 0.9350, near to its recent highs. The AUD reacted negatively to the Australian capex report released yesterday, which NAB economists described as a mixed bag.

The NZ swaps curve saw a notable flattening yesterday, with the 2 year rate rising slightly but the 10 year rate falling nearly 4bps.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Consumer Confidence Index	Feb		126.9	10:00
NZ	Building Permits MoM	Jan		-9.6	10:45
JN	Jobless Rate	Jan	2.8	2.8	12:30
JN	Tokyo CPI Ex-Fresh Food, Energy YoY	Feb	0.5	0.4	12:30
UK	Construction PMI	Feb	50.5	50.2	22:30
CA	GDP YoY	Dec	3.3	3.5	02:30
US	U. of Mich. Sentiment	Feb F	99.5	99.9	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	0.7227	+0.2	0.7196	0.7254	CHF	0.9463	+0.2		S&P 500	2,700	-0.5	12.7	Oil (Brent)	64.12	-1.3
AUD	0.7727	-0.5	0.7713	0.7764	SEK	8.277	-0.1		Dow	24,903	-1.5	17.9	Oil (WTI)	61.28	-1.0
EUR	1.2205	+0.1	1.2155	1.2222	NOK	7.876	-0.2		Nasdaq	7,244	-1.1	22.7	Gold	1312.8	-0.5
GBP	1.3726	-0.2	1.3712	1.3779	HKD	7.828	+0.0		Stoxx 50	3,399	-1.2	0.3	HRC steel	828.0	+4.3
JPY	106.67	-0.0	106.66	107.20	CNY	6.358	+0.4		FTSE	7,176	-0.8	-2.8	CRB	194.1	-0.0
CAD	1.2885	+0.4			SGD	1.326	+0.2		DAX	12,191	-2.0	1.0	Wheat Chic.	518.5	+2.0
NZD/AUD	0.9353	+0.7			IDR	13,748	-0.0		CAC 40	5,263	-1.1	6.1	Sugar	13.64	+2.3
NZD/EUR	0.5921	+0.2			THB	31.53	+0.2		Nikkei	21,724	-1.6	11.0	Cotton	81.10	-1.7
NZD/GBP	0.5265	+0.5			KRW	1,086	+0.3		Shanghai	3,274	+0.4	1.4	Coffee	123.9	+1.4
NZD/JPY	77.09	+0.2			TWD	29.32	+0.1		ASX 200	5,973	-0.7	3.4	WMI powder	3185.0	-0.9
NZD/CAD	0.9312	+0.7			PHP	51.93	-0.4		NZX 50	8,343	-0.4	16.3	Australian Futures		
NZ TWI	74.92	+0.5											3 year bond	97.925	0.02
													10 year bond	97.27	0.03
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	Last	Last	Last				
USD	1.50	2.02	2.51	2.86	USD	2.85	-0.01	NZGB 3 04/15/20	1.90	0.01	1 year	2.03	0.01		
AUD	1.50	1.80	2.02	2.91	AUD	2.75	-0.06	NZGB 6 05/15/21	2.08	0.01	2 year	2.20	0.00		
NZD	1.75	1.92	2.20	3.20	NZD	2.94	-0.00	NZGB 5 1/2 04/15/23	2.42	0.00	5 year	2.71	-0.01		
EUR	0.00	0.06	-0.13	1.08	GER	0.64	-0.01	NZGB 2 3/4 04/15/25	2.73	-0.00	7 year	2.95	-0.02		
GBP	0.50	0.58	1.02	1.56	GBP	1.47	-0.03	NZGB 4 1/2 04/15/27	2.94	-0.00	10 year	3.20	-0.04		
JPY	-0.05	-0.06	0.05	0.26	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.31	0.00	15 year	3.44	-0.04		
CAD	1.25	1.17	2.15	2.57	CAD	2.21	-0.02	NZGB 2 3/4 04/15/37	3.45	0.00					

* 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 07:10

Source: Bloomberg

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