

2 May 2018



Events Round-Up

NZ: Building permits (m/m%), Mar: 14.7 vs 5.7 prev.
AU: RBA cash rate target (%), May: 1.5 vs. 1.5 exp.
UK: Markit PMI manufacturing, Apr: 53.9 vs. 54.8 exp.
NZ: GDT dairy auction avg. winning price: -1.1%
CA: GDP (m/m%), Feb: 0.4 vs. 0.3 exp.
US: ISM manufacturing, Apr: 57.3 vs. 58.5 exp.
NZ: QV house prices (y/y%), Apr: 7.6 vs. 7.3 prev.

Good Morning

As a new month begins, the stronger USD theme has continued with increases across the board, sending the NZD below 0.70 and big figures broken for other majors. Inflationary pressures see US rates a touch higher, while US equities are lower.

That trip to Hawaii just got a little more expensive, with the NZD temporarily breaking down through 0.70 although it has managed to hold just above 0.70 over the past few hours. This puts the NZD back down to levels not seen since December. Strong technical support levels don't kick in until between 0.68-0.69. The overnight low of 0.6991 was reached soon after the GDT dairy auction result which showed average pricing falling by 1.1% and whole milk powder down by 1.5%. This defied the message of NZX dairy futures which pointed to a solid increase.

But the bigger story was the broader-based recovery in the USD, with the various indices we monitor up 0.5-0.7%. The more widely watched and tradeable DXY index broke up decisively through its 200-day moving average and everyone is wondering how much further the USD can recover during this little episode. Poor positioning remains a key factor in the move, with long EUR, GBP (and NZD) positions getting cleaned out. Better relative growth in the US, rising conviction of further Fed rate hikes and the rising cost of short USD positions all look to have more than offset the lingering structural "twin deficit" concerns around the USD, for now.

In economic news, the US ISM manufacturing index fell to a 9-month low, below expectations, while the prices paid gauge rose to a 7-year high. Still, activity levels remained strong and the key take-out was that inflationary pressures

were rising. US Treasury rates are about 1bp higher across the curve, suggesting that more of the inflation message was taken on board that the slightly weaker growth dynamic. NZ-US rate spreads continue to fall and no doubt this trend remains an enduring headwind for the NZD. NZ's 10-year government bond rate (actually a 9-year bond) fell by 4bps to 2.80%. An interpolated 10-year yield sits at 2.89%, below the US 10-year rate of 2.97%. Tumbling short-end rate spreads have been transmitted through to the long end of the curve and given the different policy outlooks for the RBNZ (on hold) and Fed (more rate hikes), the pressure remains for NZ rates to drive further under US rates, albeit more so at the short end than long end of the curve.

The weakest of the majors has been GBP as the weaker dataflow in the UK continued, with a soft manufacturing PMI and weak consumer borrowing. GBP fell on the news and extended its losses down through 1.36 at one stage. It is currently down 1% to 1.3620, with NZD/GBP up 0.7% to 0.5150.

EUR broke down through its 200-day moving average, breaking 1.20 in the process. NZD/EUR is up a touch to 0.5840. AUD has broken down through 0.75 to reach levels not seen since June last year. The RBA's policy announcement continued with its familiar theme of a neutral policy stance. To see any fresh policy guidance from the RBA we await further progress of the unemployment rate falling towards 5% and an inflation forecast that shows 2.5% in sight. NZD/AUD is fairly flat around 0.9350, as is NZD/JPY around 76.9, highlighting that the bigger picture is the USD story than any particular disdain for the NZD.

In trade news, yesterday Trump gave the EU, Mexico and Canada another 30-day reprieve from new steel and aluminium tariffs, allowing negotiations to continue for permanent exemptions. The WSJ reported that some trade advisers in Washington doubted whether additional weeks will be enough to yield a deal between the EU and the Trump administration. For Canada and Mexico, Trump is using the threat of tariffs as a negotiating tool for a better NAFTA deal, which is still under negotiation. The new tariffs already apply to China, Russia and Japan. The next key event on the trade war is the trip to China for key White House personnel later this week.

In the day ahead the key local data releases are the household labour force survey and labour cost indices. They are widely expected to show the unemployment rate

ticking down and annual wage inflation ticking up, although not likely enough to change the steady monetary policy outlook. Tonight, euro-area GDP data are expected to show growth slowed a little in Q1.

Tomorrow morning, at 6am NZ time, the FOMC announcement shouldn't cause too much of a stir. Confirmation that inflation has returned close to target and the labour market remaining tight should give the Fed confidence that its policy of further gradual rate increases ahead remains the right course of action. The next rate hike is not expected until the mid-June meeting, which is almost fully priced by the market.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Unemployment rate (%)	Q1	4.4	4.5	10:45
NZ Employment change (q/q%)	Q1	0.6	0.5	10:45
NZ LCI Pvt wages ex overtime (q/q%)	Q1	0.4	0.4	10:45
NZ QES avg hrly earnings (q/q%)	Q1	0.5	0.8	10:45
CH Caixin PMI manufacturing	Apr	50.9	51	13:45
UK Markit construction PMI	Apr	50.5	47	20:30
EC Unemployment rate (%)	Mar	8.5	8.5	21:00
EC GDP (q/q%)	Q1	0.4	0.6	21:00
EC GDP (y/y%)	Q1	2.5	2.7	21:00
US ADP employment change ('000)	Apr	198	241	00:15
US FOMC rate decision (%)	May	1.5-1.75	1.5-1.75	06:00

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	0.7012	-0.3	0.6991	0.7040	CHF	0.9962	+0.5		S&P 500	2,642	-0.1	10.6
AUD	0.7497	-0.4	0.7473	0.7542	SEK	8.850	+1.0		Dow	24,018	-0.7	14.8
EUR	1.2004	-0.6	1.1982	1.2072	NOK	8.093	+0.9		Nasdaq	7,096	+0.4	16.5
GBP	1.3622	-1.0	1.3588	1.3762	HKD	7.849	+0.0		Stoxx 50	3,536	-0.0	-0.7
JPY	109.73	+0.4	109.37	109.79	CNY	6.332	-0.1		FTSE	7,520	+0.1	4.4
CAD	1.2841	-0.0			SGD	1.333	+0.5		DAX	12,612	+0.2	1.4
NZD/AUD	0.9353	+0.1			IDR	13,913	+0.1		CAC 40	5,521	+0.6	4.8
NZD/EUR	0.5841	+0.3			THB	31.68	+0.4		Nikkei	22,508	+0.2	15.7
NZD/GBP	0.5148	+0.7			KRW	1,069	+0.1		Shanghai	3,082	+0.2	-2.3
NZD/JPY	76.94	+0.0			TWD	29.65	+0.2		ASX 200	6,015	+0.5	1.1
NZD/CAD	0.9004	-0.4			PHP	51.74	+0.0		NZX 50	8,436	-0.1	13.7
NZ TWI	73.36	-0.1										
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			
USD	1.75	2.36	2.76	3.00	USD	2.97	0.01	NZGB 6 05/15/21	2.06	0.00		
AUD	1.50	2.03	2.13	2.94	AUD	2.76	-0.01	NZGB 5 1/2 04/15/23	2.36	-0.01		
NZD	1.75	2.03	2.28	3.19	NZD	2.80	-0.04	NZGB 2 3/4 04/15/25	2.62	-0.02		
EUR	0.00	0.06	-0.14	0.99	GER	0.56	0.00	NZGB 4 1/2 04/15/27	2.80	-0.04		
GBP	0.50	0.71	1.04	1.55	GBP	1.41	-0.01	NZGB 3 04/20/29	2.98	-0.04		
JPY	-0.07	-0.03	0.05	0.25	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.18	-0.04		
CAD	1.25	1.17	2.27	2.70	CAD	2.33	0.03	NZGB 2 3/4 04/15/37	3.36	-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 06:41

Source: Bloomberg

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