

3 April 2018



### Events Round-Up

- GE: CPI EU harmonised (y/y%), Mar: 1.5 vs. 1.6 exp.
- US: PCE core (y/y%), Feb: 1.6 vs. 1.6 exp.
- CH: Non-manufacturing PMI, Mar: 54.6 vs. 54.6 exp.
- CH: Manufacturing PMI, Mar: 51.5 vs. 50.6 exp.
- JN: Tankan large manuf. Confidence, Q1: 24 vs. 25 exp.
- CH: Caixin PMI manufacturing, Mar: 51.0 vs. 51.7 exp.
- US: Construction spending (m/m%), Feb: 0.1 vs. 0.4 exp.
- US: ISM manufacturing, Mar: 59.3 vs. 59.6 exp.

### Good Morning

Most markets were closed for the Easter Monday holiday but unfortunately the US market is open and stocks have been pummelled as the new quarter begins. This has seen the NZD soften a little, while JPY has outperformed.

US equities are seeing some post-Easter indigestion with the S&P500 down over 3%, and a broadly based fall across sectors. This follows a good session on Thursday night that saw the index up 1.4%. It's not obvious what the trigger for the fall has been but candidates include some first-day-of-the-quarter selling pressure following last quarter's fall (the first since 2015), China's trade retaliation announcement over the weekend, the technical break of the 200-day moving average that traders have been watching closely and a backlash against tech stocks, not helped by some own-goals (Facebook, Tesla) and recent threats from regulators (all non-tax paying IT stocks) and Trump (Amazon).

Over the weekend China issued a list of 128 imported goods from the US to which tariffs of up to 25% would apply, in line with its previous announcement of targeting about \$3b of US imports. The move was a first step to counteract Trump's imposition of tariffs on imported steel and aluminium from China.

On the economic front, the US ISM manufacturing index came in slightly weaker than expected but remained at a high level, while the prices-paid index rose to a 7-year high. A significant number of respondents reported increased cost pressures from the steel and aluminium tariffs and some panic-buying ensued that depleted

stocks. China's official manufacturing PMI recovered in March, confirming that the timing of Chinese New Year depressed the previous month's reading, but contradicting that story the Caixin version came in softer than expected. At the end of last week, US core PCE deflator inflation data were in line, while Germany inflation jumped higher in March but was below expectations.

As we saw last quarter, the spillover from weaker equity markets into the bond and currency markets has been modest. The NZD has fallen 0.3% to 0.7215, although this simply unwinds the modest upward pressure at the end of last week. The currency is still a little higher from the 0.7200 level prevailing at Thursday's NZ close before the Easter break. The AUD has slightly underperformed the NZD, which sees NZD/AUD up slightly to 0.9425. Safe haven flows have seen JPY outperform, with USD/JPY down 0.5% to 105.80. NZD/JPY is down 0.8% to 76.3.

NZD/EUR and NZD/GBP are both lower overnight, but these crosses are still up slightly from the Thursday NZ close, at 0.5860 and 0.5140 respectively.

US Treasury yields are 2-3bps lower across the curve, attracting safe-haven flows with equity markets under pressure. The 10-year rate is below 2.72% and in search of a new support level after the key 2.80% support was broken last week. Adding in the overnight fall to the reduction seen at the end of last week, rates are more than 5bps lower compared to the NZ close on Thursday, so expect to see some downward pressure on NZ rates today.

The RBA cash rate announcement this afternoon should be another non-event, with rates firmly on hold and the Bank likely still unwilling to guide rates higher. The GDT dairy auction tonight is expected to show some slight risk to the downside for pricing. The key data release this week is US non-farm payrolls at the end of the week.

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### Coming Up

	Period	Cons.	Prev.	NZT
AU RBA cash rate target (%)	Apr	1.5	1.5	16:30
UK Markit PMI manufacturing	Mar	54.7	55.2	20:30
NZ GDT dairy auction avg. winning price			3632	

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**					
Indicative overnight ranges (*)				Other FX			Major Indices				Price					
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day				
NZD	0.7214	-0.3	0.7211	0.7241	CHF	0.9542	+0.0			S&P 500	2,564	-2.8	8.3	Oil (Brent)	67.65	-2.4
AUD	0.7653	-0.3	0.7650	0.7689	SEK	8.400	+0.7			Dow	23,404	-2.9	12.9	Oil (WTI)	63.09	-2.8
EUR	1.2303	-0.2	1.2282	1.2345	NOK	7.893	+0.6			Nasdaq	6,814	-3.5	15.2	Gold	1344.2	+1.6
GBP	1.4044	+0.2	1.4026	1.4078	HKD	7.849	-0.0			Stoxx 50	3,362	+0.9	-3.4	HRC steel	859.0	-0.1
JPY	105.78	-0.5	105.66	106.45	CNY	6.280	+0.1			FTSE	7,057	+0.2	-4.2	CRB	193.4	-1.0
CAD	1.2939	+0.3			SGD	1.313	+0.1			DAX	12,097	+1.3	-1.3	Wheat Chic.	463.5	-1.1
NZD/AUD	0.9426	+0.0			IDR	13,753	+0.2			CAC 40	5,167	-0.2	1.5	Sugar	12.52	+1.4
NZD/EUR	0.5864	-0.2			THB	31.23	+0.2			Nikkei	21,389	-0.3	12.7	Cotton	80.97	-0.6
NZD/GBP	0.5137	-0.5			KRW	1,057	-0.7			Shanghai	3,163	-0.2	-1.8	Coffee	116.4	-1.5
NZD/JPY	76.31	-0.8			TWD	29.12	+0.0			ASX 200	5,759	-0.5	-2.3	WM powder	3145.0	-0.5
NZD/CAD	0.9334	+0.0			PHP	52.04	-0.3			NZX 50	8,319	-0.8	16.0	<b>Australian Futures</b>		
NZ TWI	74.37	+0.2												3 year bond	97.875	0.01
														10 year bond	97.39	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	1.75	2.31	2.55	2.76	USD	2.72	-0.02	NZGB 6 05/15/21	2.02	0.02	1 year	2.07	0.01
AUD	1.50	2.03	2.05	2.82	AUD	2.60	0.00	NZGB 5 1/2 04/15/23	2.29	0.01	2 year	2.22	0.00
NZD	1.75	1.96	2.21	3.06	NZD	2.72	-0.00	NZGB 2 3/4 04/15/25	2.53	0.01	5 year	2.62	0.01
EUR	0.00	0.06	-0.16	0.96	GER	0.50	0.00	NZGB 4 1/2 04/15/27	2.72	-0.00	7 year	2.83	0.00
GBP	0.50	0.71	1.11	1.50	GBP	1.35	0.00	NZGB 3 04/20/29	2.92	-0.01	10 year	3.06	0.00
JPY	-0.07	-0.03	0.05	0.26	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.11	-0.01	15 year	3.30	0.01
CAD	1.25	1.17	2.15	2.51	CAD	2.10	0.01	NZGB 2 3/4 04/15/37	3.33	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 06:48

Source: Bloomberg

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