

3 May 2018



Events Round-Up

NZ: Unemployment rate (%), Q1: 4.4 vs. 4.4 exp.
NZ: Employment change (q/q%), Q1: 0.6 vs. 0.6 exp.
NZ: LCI Pvt wages x overtime (q/q%), Q1: 0.3 vs. 0.4 exp.
NZ: QES avg hrly earnings (q/q%), Q1: 1.1 vs. 0.5 exp.
CH: Caixin PMI manufacturing, Apr: 51.1 vs. 50.9 exp.
UK: Markit construction PMI, Apr: 52.5 vs. 50.5 exp.
EC: Unemployment rate (%), Mar: 8.5 vs. 8.5 exp.
EC: GDP (q/q%), Q1: 0.4 vs. 0.4 exp.
US: ADP employment change ('000), Apr: 204 vs. 198 exp.
US: FOMC rate decision (%): 1.5-1.75 vs. 1.5-1.75 exp.

Good Morning

There have been only modest changes in currencies since this time yesterday, with the USD slightly weaker since this morning's FOMC Statement. US equities and UST yields are little changed.

We have seen fairly lacklustre trading conditions over the past 24 hours, as the market awaited the FOMC Statement which was released at 6am NZ time. The USD and yields are slightly lower post the FOMC announcement, unwinding some modest upside leading up to the report. Traders might have been anticipating more hawkish language, but the Statement simply showed some tweaks from the previous March Statement that reflected the run of data since then.

The Fed dropped the line that the economic outlook has strengthened in recent months (since it hasn't) and dropped the line that it was monitoring inflation developments closely. That was added when inflation was slipping down away from target. Now that inflation is close to target, the FOMC noted that on a 12-month basis inflation is expected to run near the Committee's "symmetric" 2 percent objective over the medium term. The addition of the word symmetric is a nod to the idea that the Fed won't over-react to the PCE deflator nudging above 2% for a while.

Overall, there's no indication that the Fed is on a more aggressive tightening path to that previously projected. The USD index (BBDXY) has lost about 0.25% since the announcement, unwinding all the gains, plus some, in overnight trading. The NZD sits this morning at 0.7020, up from the overnight low of 0.6996 immediately before the

FOMC. The AUD has been the top performer of the majors, up 0.4% to 0.7520, which sees NZD/AUD nudge down to 0.9330.

Other NZD crosses are little changed. Movements in the other majors were driven by the USD. USD/JPY got up through 110 but is now lower at 109.70. EUR is back up through 1.20 after nudging down towards 1.1950.

In economic data overnight, the GDP release for the euro-area economy confirmed that growth slowed in Q1, likely reflecting a combination of particularly bad weather and an underlying slowdown from the rapid pace of growth seen last year. US ADP employment showed another month of strong private employment confirming that the US labour market remains strong, ahead of Friday's payrolls report.

Yesterday, NZ labour market data were mixed, with the unemployment rate falling to its lowest level in nearly a decade but with the lowest quarterly wage inflation in three years as measured by the labour cost index. The lack of (measured) wage inflation remains a puzzle, with anecdotes pointing towards significant staff shortages and rising wage pressures. There was little sustained market reaction to the data, with the view remaining that the RBNZ won't be changing policy for some time yet.

The US 10-year rate is flat for the day at 2.96% after trading a 4bp range of 2.955-2.995%. Fed fund futures are little changed, with the FOMC statement not moving the dial. A rate hike for June remains more or less fully priced. In its quarterly refunding announcement the US Treasury will boost issuance to \$73b this quarter (prev. \$66b), not unexpected as the US fiscal deficit grows and the Fed runs down its balance sheet at an increasing pace.

Yesterday the local market saw a slight steepening of the yield curve, with the 2-year swap rate steady at 2.28% and the 10-year swap rate up 5bps to 3.22%.

Tonight sees the release of euro-area CPI data, which is likely to show slightly weaker inflation from the previous month, as forewarned by some of the country data already released. US trade data and the non-manufacturing ISM indicator round out the evening.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance (\$m)	Mar	865	825	13:30
AU Building approvals (m/m%)	Mar	1	-6.2	13:30
NZ NZ plans to sell \$100m inflation bonds				14:05
UK Markit/CIPS services PMI	Apr	53.5	51.7	20:30
EC CPI core (y/y%)	Apr	0.9	1	21:00
EC CPI (y/y%)	Apr	1.3	1.4	21:00
US Trade balance (\$b)	Mar	-50.0	-57.6	00:30
US ISM non-manf. composite	Apr	58	58.8	02:00

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	0.7016	+0.2	0.6996	0.7032	CHF	0.9957	-0.1		S&P 500	2,654	-0.0	11.0	Oil (Brent)	73.47	+0.5
AUD	0.7520	+0.4	0.7485	0.7537	SEK	8.888	+0.3		Dow	24,067	-0.1	14.9	Oil (WTI)	68.04	+1.2
EUR	1.2001	+0.1	1.1953	1.2032	NOK	8.093	+0.1		Nasdaq	7,139	+0.1	17.1	Gold	1313.2	+0.5
GBP	1.3622	+0.1	1.3581	1.3666	HKD	7.850	+0.0		Stoxx 50	3,554	+0.5	-0.7	HRC steel	867.0	+0.6
JPY	109.68	-0.2	109.60	110.04	CNY	6.363	+0.5		FTSE	7,543	+0.3	4.0	CRB	201.6	+0.2
CAD	1.2840	-0.1			SGD	1.333	-0.0		DAX	12,802	+1.5	2.9	Wheat Chic.	526.8	-0.5
NZD/AUD	0.9330	-0.2			IDR	13,948	+0.3		CAC 40	5,529	+0.6	5.0	Sugar	11.75	+0.5
NZD/EUR	0.5846	+0.1			THB	31.72	+0.1		Nikkei	22,473	-0.2	15.6	Cotton	85.01	-0.0
NZD/GBP	0.5150	+0.1			KRW	1,076	+0.6		Shanghai	3,081	-0.0	-1.7	Coffee	123.8	-0.6
NZD/JPY	76.95	+0.0			TWD	29.75	+0.3		ASX 200	6,050	+0.6	2.7	WM powder	3280.0	-3.4
NZD/CAD	0.9009	+0.1			PHP	51.89	+0.3		NZX 50	8,494	+0.7	14.7	Australian Futures		
NZ TWI	73.50	+0.1											3 year bond	97.765	-0.01
													10 year bond	97.19	-0.02
Interest Rates							NZ Government Bonds			NZ Swap Yields					
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	1.75	2.35	2.76	3.00	USD	2.97	0.00	NZGB 6 05/15/21	2.07	0.01	1 year	2.12	-0.00		
AUD	1.50	2.02	2.14	2.97	AUD	2.80	0.04	NZGB 5 1/2 04/15/23	2.37	0.01	2 year	2.28	-0.00		
NZD	1.75	2.04	2.28	3.22	NZD	2.82	0.02	NZGB 2 3/4 04/15/25	2.63	0.01	5 year	2.74	0.02		
EUR	0.00	0.06	-0.14	1.01	GER	0.58	0.02	NZGB 4 1/2 04/15/27	2.82	0.02	7 year	2.98	0.03		
GBP	0.50	0.71	1.07	1.60	GBP	1.46	0.05	NZGB 3 04/20/29	3.00	0.02	10 year	3.22	0.04		
JPY	-0.07	-0.03	0.05	0.26	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.19	0.02	15 year	3.48	0.04		
CAD	1.25	1.17	2.29	2.73	CAD	2.37	0.03	NZGB 2 3/4 04/15/37	3.37	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 06:55

Source: Bloomberg

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