

4 April 2017

## Events Round-Up

JN: Tankan large manufacturers conf., Q1: 12 vs. 14 exp.

AU: Retail sales (m/m%), Feb: -0.1 vs. 0.3 exp.

AU: Building approvals (m/m%), Feb: 8.3 vs. -1.5 exp.

UK: Markit PMI manufacturing, Mar: 54.2 vs. 55.0 exp.

EC: Unemployment rate (%), Feb: 9.5 vs. 9.5 exp.

US: ISM manufacturing, Mar: 57.2 vs. 57.2 exp.

US: Construction spending (m/m%), Feb: 0.8 vs. 1.0 exp.

## Good Morning

The first trading day of the second quarter shows a classic risk-off tone, with falls in equity markets, falls in global bond yields, commodity currencies underperforming and the yen heading the leaderboard.

Trading conditions are reported to be light as the new week begins, with the key risk events towards the end of the week. The market is focused on Friday's US employment report but ahead of that a two-day meeting between President Xi and Trump begins on Thursday.

After the S&P500's 5.5% gain in Q1, the new quarter has begun with about a 0.5% fall, led by declines in the economically-sensitive sectors and financials. Not helping sentiment, US automakers reported much weaker than expected sales last month, while a flatter yield curve has not helped the banks. The key ISM manufacturing index met market expectations and the detail showed strong employment and new orders, but the market has largely ignored that release.

US Treasury yields have fallen further, after digesting the Fed's Dudley's dovish comments on Friday and ahead of Friday's employment report. A number of analysts see an asymmetry of risks going into the payrolls report, with yields more prone to fall than rise. It seems that the market is moving ahead of that release, with the US 10-year rate down 5bps to 2.34%, towards the lower end of the well-established 2.30-2.60% range. The 2-year rate is down by less than 2bps, making a flatter curve. Traders have been closing short Treasury positions over the past few weeks in response to no change in the Fed's projections at the last FOMC and reduced expectations of fiscal stimulus, owing to gridlock in Washington.

Earlier, yields were lower across Europe alongside the risk-off mood, with Germany's 10-year rate down 5bps to

0.27% and the UK's 10-year rate down 8bps to 1.06%. The latter was affected by the UK manufacturing PMI falling unexpectedly for the third month in a row. The economic sugar-rush from the post-referendum plunge in GBP could well be fading. The data did GBP no favours, seeing it at the bottom end of the leaderboard, falling 0.6% to 1.2475.

EUR has eked out a small gain against the USD, rising a touch to 1.0670. Final PMI data for the region were not revised and confirm the solid recovery in economic momentum for the region, while the unemployment rate fell to 9.5%, its lowest level in almost eight years.

Commodity currencies have underperformed, with commodity prices generally lower, although falls have been modest. Of those currencies, the NZD has performed the best, trading this morning close to the 0.70 mark. It is overdue for a recovery, after underperforming across the board during March, undeservedly so in our view. NZD/AUD is back up through the 0.92 mark, with soft Australia retail sales data weighing on the AUD and seeing AUD/USD probe sub 0.76 levels.

USD/JPY is back below 111, as the risk off tone and rally in US Treasuries supports the yen. This sees NZD/JPY down to 77.6, threatening to break its 200-day moving average, an area it found support towards the end of last week.

Yesterday the local rates market remained as uneventful as ever, with the 2-year swap rate well anchored and closing down 1bp to 2.31% and the 10-year swap rate drifting down on global forces, falling 2bps to 3.43%. With UST10s down 5bps in yield from the local close, the bias will be for further falls in NZ rates today.

Today's NZIER quarterly survey of business opinion might show a fall in confidence from a high level, but the underlying theme of the survey should remain one of pressures on capacity and rising inflationary pressure. The market is likely to give a collective yawn to this afternoon's RBA announcement, which is likely to remain decidedly neutral. We expect the GDT dairy auction tonight to show a small fall in pricing. Overall, we expect trading conditions to remain light until later in the week.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ QSBO business confidence, net%	Q1		26	10:00
AU Trade balance, \$m	Feb	1900	1302	13:30
AU RBA cash rate target, %	Apr	1.5	1.5	16:30
UK Markit construction PMI	Mar	52.5	52.5	20:30
EC Retail sales, m/m%	Feb	0.5	-0.1	21:00
NZ GDT dairy auction avg. winning price			3101	
US Trade balance, \$b	Feb	-44.5	-48.5	00:30
NZ QV house prices, y/y%	Mar		13.5	05:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**					
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7001	-0.1	0.6986	0.7007	CHF	1.0019	-0.1	S&P 500	2,352	-0.5	13.5	Oil (Brent)	53.11	-0.8
AUD	0.7603	-0.3	0.7591	0.7625	SEK	8.966	-0.1	Dow	20,625	-0.2	15.9	Oil (WTI)	50.22	-0.8
EUR	1.0666	+0.1	1.0643	1.0681	NOK	8.594	-0.1	Nasdaq	5,897	-0.2	20.0	Gold	1252.0	+0.4
GBP	1.2475	-0.6	1.2466	1.2554	HKD	7.771	+0.0	Stoxx 50	3,473	-0.8	17.6	HRC steel	630.0	+0.0
JPY	110.98	-0.4	110.86	111.59	CNY	6.887	-0.0	FTSE	7,283	-0.5	18.5	CRB	184.6	-0.7
CAD	1.3384	+0.5			SGD	1.397	-0.0	DAX	12,257	-0.5	25.1	Wheat Chic.	440.3	+0.3
NZD/AUD	0.9208	+0.3			IDR	13,325	+0.0	CAC 40	5,086	+0.4	17.7	Sugar	16.54	-1.3
NZD/EUR	0.6564	-0.2			THB	34.36	+0.0	Nikkei	18,983	+0.4	17.7	Cotton	75.47	-2.4
NZD/GBP	0.5612	+0.5			KRW	1,115	-0.3	Shanghai	3,223	+0.4	7.1	Coffee	137.9	-1.0
NZD/JPY	77.70	-0.5			TWD	30.33	-0.0	ASX 200	5,873	+0.1	17.6	WM powder	2860.0	+0.4
NZ TWI	76.25	-0.0			PHP	50.16	-0.1	NZX 50	7,225	+0.4	7.1	<b>Australian Futures</b>		
<b>Interest Rates</b>					<b>NZ Government Bonds</b>				<b>NZ Swap Yields</b>					
Rates		Swap Yields			Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last				Last			
USD	1.00	1.15	1.60	2.34	USD	2.34	-0.04	NZGB 3 04/15/20	2.310	-0.02	1 year	2.080	-0.01	
AUD	1.50	1.80	1.91	2.91	AUD	2.68	-0.03	NZGB 6 05/15/21	2.450	-0.02	2 year	2.310	-0.01	
NZD	1.75	2.00	2.31	3.43	NZD	3.15	-0.04	NZGB 5 1/2 04/15/23	2.755	-0.03	5 year	2.913	-0.01	
EUR	0.00	0.06	-0.15	0.74	GER	0.28	-0.05	NZGB 2 3/4 04/15/25	3.055	-0.03	7 year	3.180	-0.01	
GBP	0.25	0.34	0.59	1.13	GBP	1.06	-0.08	NZGB 4 1/2 04/15/27	3.150	-0.04	10 year	3.433	-0.02	
JPY	-0.06	0.03	0.06	0.26	JPY	0.08	0.01	NZGB 3 1/2 04/14/33	3.500	-0.04	15 year	3.738	-0.03	
CAD	0.50	1.17	1.10	1.86	CAD	1.58	-0.05							

\* 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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