

4 May 2018



Events Round-Up

- AU: Trade balance (\$m), Mar: 1527 vs. 865 exp.
- AU: Building approvals (m/m%), Mar: 2.6 vs. 1.0 exp.
- UK: Markit/CIPS services PMI, Apr: 52.8 vs. 53.5 exp.
- EC: CPI core (y/y%), Apr: 0.7 vs. 0.9 exp.
- EC: CPI (y/y%), Apr: 1.2 vs. 1.3 exp.
- US: Trade balance (\$b), Mar: -49.0 vs. -50.0 exp.
- US: ISM non-manf. Composite, Apr: 56.8 vs. 58.0 exp.

Good Morning

In overnight trading the USD is mainly softer, adding to the initial move lower after the FOMC announcement yesterday, while UST yields have nudged a little lower as well. The NZD is modestly higher across the board.

A risk-off tone developed at the open of US markets overnight, with the S&P500 falling 1.5% and breaking back below its 200-day moving average, before recovering. The index is now only down slightly. The market was on tenterhooks for some tweets or comments coming out of the first day of US-China trade talks. But key White House officials who are visiting Beijing have kept tight-lipped after the first day of meetings and China's press has apparently been told to zip-it as well. It is reasonable to expect some sort of announcement tonight after talks conclude.

Weekly data from the US Department of Agriculture showed Chinese traders are already shunning American soybeans, having cancelled some import commitments, opting to buy more from Brazil instead. Expectations are low for a break-through in negotiations. Earlier in the week President Xi said that China must firmly control major technologies and rely on domestic innovation, suggesting that the country won't accept US preconditions for negotiations. Final US trade data for March confirmed a narrowing in the deficit for March, although the deficit with China widened by 16% y/y to \$91b for the March quarter.

In other news the US non-manufacturing ISM underwhelmed expectations and fell for the third consecutive month, with the key employment index declining to its lowest level in a year. Like the equivalent survey for manufacturers, respondents expressed concern about tariffs and their effect on the cost of goods. The UK services PMI showed a smaller than expected recovery in April after the prior month's swoon, adding to the case for

the UK economy remaining sluggish, and making GBP the weakest of the majors.

Euro-area CPI inflation fell by more than expected in April, with the core rate of 0.7% y/y the lowest in more than a year. Some put this down to an Easter blip and with rising oil prices the outlook still remains for higher inflation, but the soft data play to the ECB not rushing in any decision to announce an end to its quantitative easing programme.

As we reported yesterday, the initial market reaction to the FOMC announcement was a weaker USD as the key word "symmetry" around the Fed's inflation target conveyed a message that it wouldn't over-react to inflation nudging above target for a while. However, soon after we went to print the dollar recovered all of its losses. Since then, the USD has been on the back foot and stepping back from the noise a second day of consolidation is apparent after its recent steaming run higher. This sees the NZD up through 0.7040 and, despite some risk-off undertones, it has modestly outperformed most other major currencies, with the biggest gain against GBP, up 0.7% to 0.5190 as the UK economy struggles. NZD/AUD is up a touch to 0.9350.

The US 10-year Treasury rate has traded in a 2.93-2.97% range with a downside bias, with a 2bp fall for the day. Focus turns to the US employment report tonight, which is expected to show a fresh low in the unemployment rate but moderate wage inflation – nothing likely to deviate the Fed from its well-publicised path towards further gradual rate hikes.

The NZ rates curve barely showed any movement yesterday. This afternoon the RBA releases its Statement on Monetary Policy, but following the post-meeting press release earlier this week and RBA Governor Lowe's speech, we doubt it'll reveal much new. Indeed the Governor suggested that "the latest forecasts should not contain any surprises".

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA Statement on Monetary Policy				13:30
CH	Caixin PMI services	Apr	52.3	52.3	13:45
EC	Retail sales (m/m%)	Mar	0.5	0.1	21:00
US	Chge in nonfarm payrolls ('000)	Apr	192	103	00:30
US	Unemployment rate (%)	Apr	4.0	4.1	00:30
US	Avg hourly earnings (m/m%)	Apr	0.2	0.3	00:30
US	Avg hourly earnings (y/y%)	Apr	2.7	2.7	00:30

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	0.7044	+0.7	0.7011	0.7044	CHF	0.9980	-0.2		S&P 500	2,631	+0.0	10.2	Oil (Brent)	73.85	+0.4
AUD	0.7533	+0.5	0.7499	0.7543	SEK	8.815	-1.2		Dow	23,902	+0.0	14.0	Oil (WTI)	68.43	+0.8
EUR	1.1999	+0.4	1.1949	1.2009	NOK	8.050	-1.0		Nasdaq	7,085	-0.1	16.7	Gold	1314.0	+0.7
GBP	1.3575	-0.0	1.3538	1.3630	HKD	7.850	-0.0		Stoxx 50	3,529	-0.7	-1.6	HRC steel	867.0	-0.5
JPY	109.19	-0.6	108.93	109.74	CNY	6.354	-0.1		FTSE	7,503	-0.5	3.7	CRB	201.9	+0.2
CAD	1.2852	-0.2			SGD	1.331	-0.5		DAX	12,690	-0.9	1.3	Wheat Chic.	533.0	+2.1
NZD/AUD	0.9351	+0.2			IDR	13,939	-0.1		CAC 40	5,502	+0.0	3.8	Sugar	11.69	-0.3
NZD/EUR	0.5870	+0.3			THB	31.62	-0.5		Nikkei	22,473	-0.2	15.6	Cotton	84.85	-0.2
NZD/GBP	0.5189	+0.7			KRW	1,076	+0.0		Shanghai	3,101	+0.6	-0.8	Coffee	124.4	+0.5
NZD/JPY	76.91	+0.1			TWD	29.70	-0.2		ASX 200	6,098	+0.8	3.8	WMI powder	3290.0	+0.3
NZD/CAD	0.9053	+0.4			PHP	51.68	-0.4		NZX 50	8,547	+0.6	15.8	Australian Futures		
NZ TWI	73.69	+0.4											3 year bond	97.79	0.03
													10 year bond	97.22	0.04
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	2.36	2.75	2.98	USD	2.94	-0.02	NZGB 6 05/15/21	2.07	0.00	1 year	2.12	0.00		
AUD	1.50	2.02	2.13	2.94	AUD	2.81	0.02	NZGB 5 1/2 04/15/23	2.36	-0.01	2 year	2.28	-0.01		
NZD	1.75	2.04	2.26	3.23	NZD	2.81	-0.00	NZGB 2 3/4 04/15/25	2.62	-0.00	5 year	2.74	0.00		
EUR	0.00	0.06	-0.15	0.97	GER	0.53	-0.05	NZGB 4 1/2 04/15/27	2.81	-0.00	7 year	2.98	0.01		
GBP	0.50	0.70	1.02	1.55	GBP	1.39	-0.07	NZGB 3 04/20/29	2.99	-0.00	10 year	3.23	0.01		
JPY	-0.07	-0.03	0.05	0.26	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.19	-0.00	15 year	3.49	0.01		
CAD	1.25	1.17	2.27	2.68	CAD	2.33	-0.03	NZGB 2 3/4 04/15/37	3.37	-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 06:53

Source: Bloomberg

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