

5 April 2017

Events Round-Up

- NZ: QSBO business confid. (s.a.net%), Q1: 16 vs. 26 prev.
- NZ: QSBO own activity (s.a. net%), Q1: 25 vs. 25 prev.
- AU: Trade balance (\$m), Feb: 3574 vs. 1900 exp.
- AU: RBA cash rate target (%), Apr: 1.5 vs. 1.5 exp.
- UK: Markit construction PMI, Mar: 52.2 vs. 52.5 exp.
- EC: Retail sales (m/m%), Feb: 0.7 vs. 0.5 exp.
- NZ: GDT dairy auction avg. winning price: +1.6%
- US: Trade balance (\$b), Feb: -43.6 vs. -44.5 exp.
- NZ: QV house prices (y/y%), Mar: 12.9 vs. 13.5 prev.

Good Morning

There have been a few bits and pieces of news, but the markets have traded in a fairly random fashion. There has been talk of Trump resurrecting his healthcare bill in a way to placate his fellow Republican renegades which, if successful, would be a win and get his policy agenda back on track. The Fed's Lacker, an FOMC non-voting member this year, resigned over a confidentiality breach of some five years ago. The economic data that have been released have largely been ignored.

With all that, the USD is up slightly, equity markets are fairly flat, the VIX index is down slightly and US Treasury yields have nudged up after their decent fall of late.

With slightly higher risk appetite, a strong QSBO and a surprise lift in dairy prices, one might have expected the NZD to make up some of the ground lost in March. But fundamental factors are not driving the currency at present, so maybe we shouldn't be that surprised to see the NZD lower on almost all the crosses, a continuation from the theme of March.

The NZ quarterly survey of business opinion showed a series of robust activity indicators, further signs of strains on capacity, particularly the labour market, and painted a picture of rising inflationary pressure. The market didn't react. It also didn't react to the 1.6% increase in the GDT dairy auction price index, driven by a 2.4% rise in whole milk powder. We had thought the balance of risk was weighted towards a slightly soft auction. The NZD has trended lower over the past 24 hours and is currently probing the 0.6970 level, falling on all crosses apart from NZD/AUD. There is strong technical support about a cent lower, just under the 0.69 mark.

Yesterday the AUD got a temporary boost from much

stronger than expected trade data, but it fell following the RBA policy announcement. The market honed in on the bank's comments about the softer labour market and the macro prudential restraints to alleviate housing market stresses. Governor Lowe's comments later at a Board dinner were focused on the housing market, chiding the banks for their lax lending standards, lamenting the high levels of household debt, and signalling that the government should do more work to alleviate upward pressure on house prices. The AUD fell over half a cent in the hours after the RBA's announcement but found some support around the 0.7550 mark. NZD/AUD has traded in a 60pip range (roughly 0.9190-0.9250) and currently sits flat around 0.9225.

The euro and yen are little changed against the USD, while GBP has continued to nudge lower, currently around 1.2450.

US Treasury rates are 2-3bps higher across the curve, reversing some of the fall seen over recent sessions. The 10-year rate got to as low as 2.31%, close to the bottom of the well-established 2.30-2.60% range, before selling pressure emerged and the yield is currently at 2.35%. This move has gone against the grain of further falls in European rates, with Germany's 10-year bund yield down a couple of basis points to 0.25%, the lowest level in over a month. For the US market, Trump's talks later in the week with President Xi and Friday's non-farm payrolls release remain the focus.

Local rates showed a decent fall yesterday, supported by the fall in global rates and showing no reaction to the QSBO. The 2-year swap rate fell by 4bps to 2.27% and the 10-year rate fell by 7bps to 3.36%. We'll likely see some reversal of those moves today. Tonight sees the release of the US ISM non-manufacturing survey and ADP employment report. Both are expected to be softer than prior figures. Tomorrow morning sees the release of the minutes from the FOMC's March meeting. We can't see how they can add much, given the plethora of Fed speakers on the circuit in the weeks after the meeting.

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Coming Up

	Period	Cons.	Prev.	NZT
UK Markit services PMI	Mar	53.4	53.3	20:30
US ADP employment change ('000)	Mar	190	298	00:15
US ISM non-manf.	Mar	57.0	57.6	02:00
US FOMC meeting minutes	Mar			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	0.6975	-0.6	0.6970	0.6995	CHF	1.0020	+0.0		S&P 500	2,359	+0.0	14.2	Oil (Brent)	54.10	+1.8
AUD	0.7561	-0.6	0.7545	0.7587	SEK	9.006	+0.6		Dow	20,686	+0.2	16.6	Oil (WTI)	51.00	+1.5
EUR	1.0666	-0.0	1.0636	1.0675	NOK	8.597	+0.2		Nasdaq	5,896	+0.0	20.5	Gold	1254.3	+0.3
GBP	1.2449	-0.3	1.2419	1.2478	HKD	7.771	-0.0		Stoxx 50	3,482	+0.3	17.5	HRC steel	640.0	+1.6
JPY	110.68	-0.2	110.27	110.81	CNY	6.887	-0.0		FTSE	7,322	+0.5	18.8	CRB	185.6	+0.6
CAD	1.3412	+0.2			SGD	1.398	+0.1		DAX	12,282	+0.2	25.0	Wheat Chic.	440.0	+0.1
NZD/AUD	0.9225	+0.0			IDR	13,331	+0.0		CAC 40	5,101	-0.4	17.4	Sugar	16.16	-2.3
NZD/EUR	0.6539	-0.5			THB	34.46	+0.3		Nikkei	18,810	-0.9	19.6	Cotton	74.85	-0.8
NZD/GBP	0.5603	-0.3			KRW	1,122	+0.6		Shanghai	3,223	+0.4	7.1	Coffee	137.8	-0.1
NZD/JPY	77.20	-0.7			TWD	30.49	+0.5		ASX 200	5,857	-0.3	18.9	WM powder	2870.0	+0.7
NZ TWI	76.11	-0.4			PHP	50.18	+0.0		NZX 50	7,245	+0.3	7.9	Australian Futures		
										3 year bond	98.11	0.00			
										10 year bond	97.37	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	1.00	1.15	1.59	2.33	USD	2.35	0.03	NZGB 3 04/15/20	2.280	-0.03	1 year	2.070	-0.01		
AUD	1.50	1.79	1.87	2.88	AUD	2.61	-0.07	NZGB 6 05/15/21	2.420	-0.03	2 year	2.270	-0.04		
NZD	1.75	2.00	2.28	3.36	NZD	3.09	-0.06	NZGB 5 1/2 04/15/23	2.720	-0.04	5 year	2.845	-0.07		
EUR	0.00	0.06	-0.15	0.74	GER	0.26	-0.02	NZGB 2 3/4 04/15/25	2.995	-0.06	7 year	3.110	-0.07		
GBP	0.25	0.34	0.58	1.12	GBP	1.07	0.00	NZGB 4 1/2 04/15/27	3.085	-0.06	10 year	3.360	-0.07		
JPY	-0.04	0.02	0.05	0.25	JPY	0.07	-0.01	NZGB 3 1/2 04/14/33	3.430	-0.07	15 year	3.660	-0.08		
CAD	0.50	1.17	1.11	1.86	CAD	1.58	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 06:45

Source: Bloomberg

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