

5 April 2018



Events Round-Up

NZ: ANZ consumer confidence, Mar: 128.0 vs. 127.7 prev.
AU: Building approvals (m/m%), Feb: -6.2 vs. -5.0 exp.
AU: Retail sales (m/m%), Feb: 0.6 vs. 0.3 exp.
CH: Caixin PMI services, Mar: 52.3 vs. 54.5 exp.
UK: Markit construction PMI, Mar: 47.0 vs. 51.0 exp.
EC: Unemployment rate (%), Feb: 8.5 vs. 8.5 exp.
EC: CPI Core (y/y%), Mar: 1.0 vs. 1.1 exp.
EC: CPI (y/y%), Mar: 1.4 vs. 1.4 exp.
US: ADP employment change (k), Mar: 241 vs. 210 exp.
US: ISM non-manf. Composite, Mar: 58.8 vs. 59.0 exp.
NZ: QV house prices (y/y%), Mar: 7.3 vs. 6.5 prev.

Good Morning

The US-China trade war has heated up but the market is taking this in its stride. Initial market movements on headlines haven't been sustained. Net FX movements have been minimal, apart from the NZD, which has outperformed owing to flows than fundamentals.

Yesterday the US released a list of 1300 categories spanning \$50b of imports from China that could be subject to import tariffs of up to 25%. In a tit-for-tat response, late in the day China placed tariffs of up to 25% on major US imports including airplanes, autos and soybeans, covering 106 categories of products and affecting \$50b of goods. China has been strategic in the 106 items chosen, choosing sectors that may prove more vulnerable to Trump's key supporters.

S&P futures dived and safe-haven currencies outperformed on the news of China's response, which was meatier than its original imposition of tariffs affecting just \$3b of trade. But that move has since faded as the market takes a more positive view on the outlook, seeing China's response as all part of the negotiating process or the "art of war". China has not specified a date for the tariffs to start and will wait for the US to implement the tariffs, which themselves are subject to consultation. China's Vice Finance Minister said that the country will "keep its door open for dialogue" and that it "wants to solve trade issues in constructive ways". Representatives from the Trump administration also left the door open for a negotiated solution.

Alongside US-China trade tensions there have been a number of key economic releases, but market reaction has been minimal. Soft UK construction PMI data has been put down to bad weather. Euro area CPI inflation showed the expected pick-up to 1.4% y/y but the core measure of CPI (not an ECB target) was slightly weaker at 1.0% y/y. US ADP employment was very strong. The US ISM non-manufacturing index came off its previous super-high level, while the employment component was stronger.

Looking at the markets, the S&P500 fell by about 1½% on the open but has since recovered strongly and now the index shows gains of about 0.6%. Technicians note that a positive close after the poor open would represent a bullish signal for the near term.

Most currencies have shown only modest changes since the NZ close and since this time yesterday, however the NZD is the exception, up 0.7% since 7am yesterday, now back above the 0.73 mark, and up on all the crosses. There has been no fundamental reason for the move. QV house price data were released this morning showing the strongest annual gain since June 2017 at 7.3% y/y, in line with some previously released data showing some improvement in the housing market. NZD/AUD met some resistance a pip below 0.95 and is currently 0.9480. NZD/JPY is trading near 78. NZD/GBP is closing in on 0.52 and NZD/EUR is up to 0.5950. The NZ TWI is at 75.35, just above the mid-point of the 74-76 range it has been stuck in for much of this year.

US 10-year Treasuries traded as low as 2.75% but are currently near their high for the day at 2.79%. There has been a slight steepening of the curve. The Fed's Bullard said that an escalating US-China trade dispute increases uncertainty around the outlook, but he would wait and see how negotiations play out before adjusting his economic forecasts, and the end result may be a better trade relationship for US businesses. On rates he said "more uncertainty is likely keeping longer rates lower. I could see that feeding back and keeping short rates lower than they would otherwise be".

NZ rates were higher across the curve yesterday in the order of 2-4bps, driven by global forces. There are a few bits and pieces on the economic calendar today and tonight but trading is likely to remain lacklustre ahead of the US employment report on Friday night.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance (\$m)	Feb	725	1055	13:30
NZ NZ plans to sell \$100m inflation bonds				14:05
GE Factory orders (y/y%)	Feb	6.5	8.2	18:00
UK Markit/CIPS services PMI	Mar	54.0	54.5	20:30
EC Retail sales (y/y%)	Feb	2.2	2.3	21:00
US Trade balance (\$b)	Feb	-56.8	-56.6	00:30
US Fed's Bostic speaks on financial literacy				05:00

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**			
Indicative overnight ranges (*)				Other FX				Major Indices				Price			
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day	
NZD	0.7308	+0.7	0.7273	0.7309	CHF	0.9603	+0.2		S&P 500	2,609	+0.5	10.6	Oil (Brent)	67.69	-0.2
AUD	0.7708	+0.3	0.7663	0.7710	SEK	8.408	+0.1		Dow	23,951	+0.4	15.8	Oil (WTI)	63.10	-0.3
EUR	1.2281	+0.1	1.2257	1.2315	NOK	7.833	-0.1		Nasdaq	6,937	+0.7	17.6	Gold	1335.9	+0.0
GBP	1.4079	+0.2	1.4015	1.4089	HKD	7.849	+0.0		Stoxx 50	3,340	-0.2	-4.1	HRC steel	860.0	-0.6
JPY	106.74	+0.1	105.99	106.69	CNY	6.303	+0.2		FTSE	7,034	+0.1	-3.9	CRB	192.0	-0.4
CAD	1.2787	-0.2			SGD	1.313	+0.1		DAX	11,958	-0.4	-2.6	Wheat Chic.	472.5	-0.3
NZD/AUD	0.9481	+0.4			IDR	13,766	+0.0		CAC 40	5,142	-0.8	0.8	Sugar	12.27	-1.6
NZD/EUR	0.5951	+0.6			THB	31.24	+0.1		Nikkei	21,320	+0.1	13.0	Cotton	79.86	-3.0
NZD/GBP	0.5191	+0.6			KRW	1,060	+0.5		Shanghai	3,131	-0.2	-4.3	Coffee	116.9	+0.3
NZD/JPY	78.01	+0.8			TWD	29.19	+0.2		ASX 200	5,761	+0.2	-2.0	WM powder	3210.0	+2.2
NZD/CAD	0.9345	+0.5			PHP	52.10	+0.1		NZX 50	8,398	+0.8	15.6	Australian Futures		
NZ TWI	75.35	+0.7											3 year bond	97.82	0.00
													10 year bond	97.37	0.01
Interest Rates								NZ Government Bonds				NZ Swap Yields			
	Rates				Benchmark 10 Yr Bonds				Last				Last		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day								
USD	1.75	2.32	2.59	2.81	USD	2.78	0.00	NZGB 6 05/15/21	2.07	0.03		1 year	2.09	0.01	
AUD	1.50	2.05	2.11	2.83	AUD	2.63	0.03	NZGB 5 1/2 04/15/23	2.34	0.03		2 year	2.25	0.02	
NZD	1.75	1.97	2.24	3.10	NZD	2.76	0.04	NZGB 2 3/4 04/15/25	2.58	0.04		5 year	2.66	0.04	
EUR	0.00	0.06	-0.15	0.95	GER	0.50	-0.00	NZGB 4 1/2 04/15/27	2.76	0.04		7 year	2.88	0.04	
GBP	0.50	0.72	1.13	1.53	GBP	1.37	0.01	NZGB 3 04/20/29	2.96	0.04		10 year	3.10	0.03	
JPY	-0.07	-0.04	0.04	0.25	JPY	0.03	0.00	NZGB 3 1/2 04/14/33	3.14	0.04		15 year	3.35	0.04	
CAD	1.25	1.17	2.18	2.57	CAD	2.16	0.01	NZGB 2 3/4 04/15/37	3.36	0.04					

* 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 06:49

Source: Bloomberg

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