

6 April 2017

Events Round-Up

UK: Markit services PMI, Mar: 55.0 vs. 53.4 exp.
EU: Markit services PMI, Mar F: 56.0 vs. 56.5 exp.
US: ADP employment change ('000), Mar: 263 vs. 185 exp.
US: ISM non-manf., Mar: 55.2 vs. 57.0 exp.
US: FOMC meeting minutes

Good Morning

A risk-on environment overnight sees US equities up 0.4% (paring gains after the FOMC minutes), and a lower the VIX index, but the NZD remains out of favour and is down on most of the crosses, although currency movements overall have been modest.

The USD was on an upward path after ADP private payrolls figures were stronger than expected, adding some upside risk to Friday's more-important employment report. The non-manufacturing ISM index was softer than expected, falling to a 5-month low, and employment component also looked on the soft side, but this only caused a temporary hiccup in the higher USD trajectory.

After the release of the minutes of the FOMC's March meeting, the USD slipped after taking some time to digest the report. The key takeout was that most participants anticipated that gradual increases in the federal funds rate would continue and judged that a change to the committee's reinvestment policy would likely be appropriate later this year. It was the comment that related to balance sheet adjustment that got the markets attention, with a more definitive sense of timing given. With the Fed looking to reduce the size of its balance sheet later in the year, this would act as a tightening in monetary policy, so the market took the view that this probably reduced the upside pressure to US rates down the track and the USD fell, giving up most of its earlier gains.

The USD major currency index is still up for the day, albeit the gain has been pared back from +0.3% down to +0.1% following those minutes.

After trading in a very tight range yesterday, the NZD trended down towards the 0.6945 mark, following strength in the USD, before recovering 20pips or so after the release of the FOMC minutes. Despite the higher risk appetite environment, the NZD still underperformed on most of the other crosses.

The AUD was supported by higher base metal prices. This followed news that China was looking to develop an economic zone near Beijing. Copper, nickel, zinc and iron ore prices all rose, the latter rising to \$81.50 after spending a couple of days with a \$79 handle. Crude oil prices made good gains until data showed US stockpiles rising to a record high last week and those gains were pared back significantly. NZD/AUD fell back through the 0.92 handle and trades this morning around 0.9180.

GBP was well supported following a stronger than expected PMI services figure. The services sector is very important to the UK so the market took note. GBP was the best performing major currency, seeing GBP/USD up to 1.2490 and NZD/GBP continuing to trend lower and down to 0.5575.

The yen was under a little pressure in the risk-on environment, but it has since recovered. NZD/JPY is flat at 77.2.

US Treasury yields were higher for most of the night, following the strong ADP employment release, with the 10-year rate reaching as high as 2.38%, but yields slipped after the FOMC minutes and are currently around 2.35%, pretty flat compared to the NZ close. The market is currently divided on whether the Fed will hike again as soon as June, with the probability of a hike at that meeting just over the 60% mark. The minutes revealed that the committee is still split on whether it has achieved or about to achieve its 2% inflation goal.

Germany's 10-year rate rose by 2bps after ECB Governing Council member Jens Weidmann told Die Zeit the time is approaching for the central bank to "not have the foot pressed down on the gas pedal, but to lift it slightly." But that gain was gradually pared back and 10-year bunds closed flat at 0.26%.

NZ rates were little changed yesterday, with the 2-year swap rate up 1bp to 2.28% and the 10-year rate down 0.5bp to 3.36%. The recent increase in demand for yield sees NZ's 10 year government bond yield trade at the bottom end of its trading range this year at around 3.10%. Yesterday saw strong bidding interest in the LGFA's tender, which included a new 2033 line. Bid/cover ratios were high and the bonds were cleared well inside pre-tender mid rates for the maturities on offer.

Newsflow over the next 24 hours is expected to be fairly light.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
AU	RBA's Debelle speech in Sydney			10:40
CH	Caixin PMI services	Mar	52.6	13:45
GE	Factory orders (m/m%)	Feb	4.0 -7.4	18:00
EC	ECB President Draghi speaks in Frankfurt			19:00
US	Initial jobless claims	250	258	00:30

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	0.6968	-0.1	0.6941	0.6984	CHF	1.0046	+0.3			S&P 500	2,366	+0.2	15.7	Oil (Brent)	54.30	+0.2	
AUD	0.7585	+0.3	0.7560	0.7587	SEK	8.980	-0.3			Dow	20,769	+0.4	18.0	Oil (WTI)	51.07	+0.1	
EUR	1.0667	-0.1	1.0635	1.0689	NOK	8.599	+0.1			Nasdaq	5,905	+0.1	21.9	Gold	1246.7	-0.7	
GBP	1.2485	+0.4	1.2423	1.2497	HKD	7.770	-0.0			Stoxx 50	3,473	-0.3	20.1	HRC steel	640.0	+0.0	
JPY	110.90	+0.1	110.57	111.45	CNY	6.895	+0.1			FTSE	7,332	+0.1	20.4	CRB	186.1	+0.3	
CAD	1.3400	-0.0			SGD	1.401	+0.2			DAX	12,218	-0.5	27.8	Wheat Chic.	442.5	+0.6	
NZD/AUD	0.9187	-0.3			IDR	13,320	-0.1			CAC 40	5,092	+0.2	19.8	Sugar	16.10	-0.4	
NZD/EUR	0.6532	-0.0			THB	34.54	+0.3			Nikkei	18,861	+0.3	20.0	Cotton	74.87	+0.0	
NZD/GBP	0.5581	-0.4			KRW	1,124	+0.2			Shanghai	3,270	+1.5	7.2	Coffee	137.3	-0.3	
NZD/JPY	77.28	+0.1			TWD	30.40	-0.3			ASX 200	5,876	+0.3	18.8	WM powder	2925.0	+1.9	
NZ TWI	75.99	-0.1			PHP	50.17	-0.0			NZX 50	7,265	+0.3	7.9	Australian Futures			
															3 year bond	98.12	0.00
															10 year bond	97.37	0.02
Interest Rates							NZ Government Bonds				NZ Swap Yields						
Rates		Swap Yields			Benchmark 10 Yr Bonds												
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last							
USD	1.00	1.15	1.57	2.33	USD	2.35	-0.01	NZGB 3 04/15/20	2.285	0.00	1 year	2.070	+0.00				
AUD	1.50	1.79	1.87	2.87	AUD	2.61	0.00	NZGB 6 05/15/21	2.430	0.01	2 year	2.285	+0.02				
NZD	1.75	2.00	2.29	3.36	NZD	3.10	0.01	NZGB 5 1/2 04/15/23	2.730	0.01	5 year	2.853	+0.01				
EUR	0.00	0.06	-0.15	0.73	GER	0.26	0.00	NZGB 2 3/4 04/15/25	3.005	0.01	7 year	3.113	+0.00				
GBP	0.25	0.34	0.58	1.15	GBP	1.09	0.03	NZGB 4 1/2 04/15/27	3.095	0.01	10 year	3.358	-0.00				
JPY	-0.04	0.04	0.05	0.25	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.440	0.01	15 year	3.650	-0.01				
CAD	0.50	1.17	1.10	1.86	CAD	1.57	-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 07:08

Source: Bloomberg

Contact Details

New Zealand	Kymerly Martin	Senior Market Strategist	+ (64 4) 924 0419
	Jason Wong	Currency Strategist	+ (64 4) 924 7652
Australia	Ray Attrill	Global Co-Head of FX Strategy	+ (61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+ (61 2) 9237 7109
London	Nick Parsons	Global Co-Head of FX Strategy	+ (44 0) 20 7710 2993
	Gavin Friend	Markets Strategist	+ (44 0) 20 7710 0898

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