

6 April 2018



Events Round-Up

- AU: Trade balance (\$m), Feb: 825 vs. 725 exp.
- GE: Factory orders (m/m%), Feb: 0.3 vs. 1.5 exp.
- UK: Markit/CIPS services PMI, Mar: 51.7 vs. 54.0 exp.
- EC: Retail sales (m/m%), Feb: 0.1 vs. 0.5 exp.
- US: Trade balance (\$b), Feb: -57.6 vs. -56.8 exp.

Good Morning

The USD is broadly stronger as markets take a more optimistic view on US-China trade tensions, while US rates drift higher against a backdrop of a further recovery in equities.

The market sees receding risks of an escalating US-China trade war, helping US equities extend their recovery yesterday. White House trade advisor Navarro said that top government officials between the two countries will be in talks before any new tariffs are imposed. Trump's key economic advisor Kudlow spent a second day doing media interviews to hose down any major concerns about a possible trade war and arguing that there would be a negotiated solution, saying "it's nothing around the corner...there's going to be big discussion about it".

There are also more positive signs of an imminent NAFTA trade agreement. Canada's PM Trudeau said that NAFTA talks are "moving forward in a significant way". This followed reports the US had softened its stance on a key NAFTA demand regarding North American content in car manufacturing.

Not helping the cause for the US back down on its trade rhetoric was data showing that the US trade deficit widened for the sixth consecutive month and by more than expected to a fresh 9-year high in February, driven by import demand. On other data releases, final euro-area PMI data confirmed that growth momentum in the region had slowed. A big miss to the downside for the UK services PMI was put down to bad weather as the "beast from the east" affected economic activity.

A receding of trade tensions sees improving risk appetite but in this case with the US at the centre of concern, higher risk appetite in this context means a stronger USD. It has risen across the board over the last 24 hours and in overnight trading, although CAD has managed to keep pace given more hope of a re-negotiated NAFTA deal. USD/CAD is flat around 1.2770 while NZD/CAD has fallen to its lowest level in a month to around 0.9270.

NZD/USD met some resistance around 0.7320 yesterday afternoon and has fallen away since down to 0.7270. The "lower highs" pattern seen over the past couple of months still supports the view that a modest downward channel is in play, although it's not significant enough to be overly confident about this pattern (yet) as the currency has more or less been in a range-trading environment for much of this year.

Moves on the crosses (apart from NZD/CAD) haven't been significant as most currencies have fallen against the USD by similar amounts. So NZD vs AUD, JPY, EUR and GBP are all plus or minus 0.1-0.2% for the day.

The better risk tone sees global bond rates slightly higher. The US 10-year Treasury rate has traded a 2.80-2.83% range, now well up from the 2.72% low seen earlier this week. Tonight sees the key US employment report. The market expects solid employment growth (+185k, weighed down following super-sized weather-related gains in the previous two months), a fresh low in the unemployment rate to 4.0% and average hourly earnings ticking higher to 2.7% y/y. All this would be consistent with the Fed continuing along its path of policy tightening, albeit the next rate hike is not expected until mid-June. Fed Chair Powell will be speaking overnight after the employment report.

Overnight, the Fed's Bostic (voter) said that he sees PCE inflation hitting the Bank's 2% target in the next quarter or two and "I am actually very comfortable going above 2% by some amount...2.2%, 2.3%...I don't think that is a crisis of overheating", reiterating the common refrain from the FOMC that the inflation target is symmetric, or an average and not a ceiling.

Yesterday, NZ rates followed global rates higher, along with some curve steepening. The 2-year swap rate was flat at 2.25% while 5 and 10 year rates rose by 2-3bps.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	Industrial production (m/m%)	Feb	0.3	-0.1	18:00
US	Chg in nonfarm payrolls (k)	Mar	185	313	00:30
US	Unemployment rate (%)	Mar	4.0	4.1	00:30
US	Average hrly earnings (y/y%)	Mar	2.7	2.6	00:30
CA	Unemployment rate (%)	Mar	5.8	5.8	00:30
US	Fed's Powell speaks on economic outlook				05:30
US	Fed's Williams speaks on economic outlook				08:00

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	0.7270	-0.5	0.7262	0.7304	CHF	0.9637	+0.3		S&P 500	2,664	+0.9	13.2	Oil (Brent)	68.28	+0.6
AUD	0.7682	-0.4	0.7674	0.7698	SEK	8.431	+0.2		Dow	24,416	+1.1	18.2	Oil (WTI)	63.51	+0.4
EUR	1.2236	-0.3	1.2218	1.2284	NOK	7.842	+0.1		Nasdaq	7,057	+0.6	20.3	Gold	1325.5	-0.8
GBP	1.4001	-0.6	1.3966	1.4074	HKD	7.849	+0.0		Stoxx 50	3,430	+2.7	-1.2	HRC steel	859.0	-0.2
JPY	107.43	+0.6	106.83	107.49	CNY	6.303	+0.2		FTSE	7,200	+2.4	-1.8	CRB	193.6	+0.8
CAD	1.2762	-0.1			SGD	1.317	+0.3		DAX	12,305	+2.9	0.7	Wheat Chic.	479.5	+1.7
NZD/AUD	0.9464	-0.0			IDR	13,767	+0.0		CAC 40	5,277	+1.0	3.6	Sugar	12.35	+0.7
NZD/EUR	0.5941	-0.1			THB	31.27	+0.1		Nikkei	21,645	+1.5	16.4	Cotton	82.02	+3.8
NZD/GBP	0.5192	+0.1			KRW	1,060	+0.0		Shanghai	3,131	-0.2	-4.3	Coffee	117.6	+0.5
NZD/JPY	78.10	+0.1			TWD	29.22	+0.1		ASX 200	5,789	+0.5	-1.2	WMI powder	3205.0	+0.2
NZD/CAD	0.9278	-0.6			PHP	52.12	+0.0		NZX 50	8,364	-0.4	14.7	Australian Futures		
NZ TWI	75.09	-0.3											3 year bond	97.815	0.00
													10 year bond	97.31	-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	2.32	2.62	2.86	USD	2.82	0.02	NZGB 6 05/15/21	2.08	0.01	1 year	2.09	-0.00
AUD	1.50	2.04	2.10	2.88	AUD	2.67	0.03	NZGB 5 1/2 04/15/23	2.36	0.02	2 year	2.25	0.00
NZD	1.75	1.96	2.25	3.13	NZD	2.79	0.03	NZGB 2 3/4 04/15/25	2.61	0.03	5 year	2.69	0.02
EUR	0.00	0.06	-0.15	0.98	GER	0.52	0.02	NZGB 4 1/2 04/15/27	2.79	0.03	7 year	2.91	0.03
GBP	0.50	0.74	1.15	1.57	GBP	1.42	0.05	NZGB 3 04/20/29	2.99	0.03	10 year	3.13	0.03
JPY	-0.06	-0.04	0.05	0.26	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.18	0.04	15 year	3.38	0.03
CAD	1.25	1.17	2.18	2.57	CAD	2.18	0.00	NZGB 2 3/4 04/15/37	3.40	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 07:02

Source: Bloomberg

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