

6 March 2018



Events Round-Up

AU: Building approvals (m/m%), Jan: 17.1 vs. 5.0 exp.
CH: Caixin PMI services, Feb: 54.2 vs. 54.3 exp.
UK: Markit services PMI, Feb: 54.5 vs. 53.3 exp.
EC: Retail sales (m/m%), Jan: -0.1 vs. -0.1 exp.
US: ISM non-manf. Composite, Feb: 59.5 vs. 59.0 exp.

Good Morning

Equity markets are higher and US 10-year rates have nudged up since the NZ close. Currency movements have been modest, with CAD a notable underperformer.

US equities opened weaker, carrying on from the weak momentum seen at the end of last week, but have staged a recovery, with the S&P500 currently up 1.5% from its intraday-low and 0.9% for the session so far. Market participants have had more time to digest the implications of Trump's import tariffs on steel and aluminium and seem to have come to the conclusion that the market over-reacted last week. At the end of last week the market cap for the S&P500 fell by \$360b in response to tariffs that make up about \$3b of US monthly imports.

We won't see any retaliation from the EU and other regions until the official policy details are announced later this week or next week. There have been few fresh developments overnight. Trump tweeted that "...tariffs on steel and aluminium will only come off if new & fair NAFTA agreement is signed. Also, Canada must treat our farmers much better. Highly restrictive." This has seen further downward pressure on CAD, taking USD/CAD up 0.8% to 1.2980, its highest level since mid-last year. NZD/CAD continues to trend higher and is approaching 0.94 after starting the year close to 0.89.

GBP has outperformed, seeing a lift after UK PM May spoke in Parliament, saying she was "confident we can reach agreement" on a transitional Brexit deal. Pro-Brexit campaigners have been positive about her speech at the end of last week and the mood within the Conservative party is seen to be slightly better. Earlier in the session the UK services PMI beat expectations. GBP met some resistance at 1.3880 but is still up 0.4% to 1.3850.

The results of Italy's general election showed a rise in support for populist parties rising at the expense of the mainstream parties. Still, the result was a hung Parliament with the anti-establishment 5-Star Movement

gaining the most seats and claiming the right to govern while the centre-right bloc also claimed the right to govern. Political gridlock has been the norm for Italy over past decades and that looks set to continue. EUR opened Monday with a bid tone, supported by Germany's SPD party voting to support a Merkel-led government. EUR came under pressure as the Italian election results emerged and was soft during the Asian session falling to as low as 1.2270 last night. It has since recovered to be up slightly for the day.

The NZD remains a by-stander amidst more interesting global developments. The currency was generally lower through the Asian session, finding some support just above the 0.72 mark. It trades this morning down slightly from where it closed last week, currently 0.7225. Price action over the past six weeks or so shows some pretty well-defined technical ranges, with key support at USD 0.7175 and resistance at USD 0.7440. The near-term threat appears to be a break of support if the negative headlines continue on global trade policy, while the top of the range is more of a later threat should the USD downward trend, evident over the past 12 months, resumes. Our short-term FV estimate sits around USD 0.71, with last week's fall in risk appetite nudging fair value lower. Tonight we expect to see a slightly softer GDT dairy auction, with NZX whole milk powder futures slipping 2% or so since the last auction.

AUD is also fairly flat against the USD to start the week. USD/JPY is up 0.4% to 106.20 as risk appetite improves. NZD/JPY saw downward pressure as a risk-off mood prevailed during the Asian trading session. The cross bounced off the key technical support level just under 76 and trades this morning back up at 76.7.

US 10-year Treasury yields have risen in the overnight session as equities recover, currently trading at their high for the day of 2.89%, up 5bps from the NZ close. Yesterday we saw little movement in the NZ swaps curve while NZ government bond yields were higher, with the 10-year rate up 4bps 2.96%, mirroring the gain seen in US rates during the Friday night session.

During the local trading session today the Australian calendar is full, with current account and retail sales data ahead of the RBA policy announcement later this afternoon. It should be a fairly market-neutral statement and analysts will be focused on the commentary regarding wages and employment, as they are seen to be the key towards the Bank moving to a more hawkish stance.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Current a/c balance, \$b	Q4	-12	-9	13:30
AU	Net exports (%pt contrib.GDP)	Q4	-0.6	0.0	13:30
AU	Retail sales (m/m%)	Jan	0.4	-0.5	13:30
AU	RBA cash rate target (%)		1.5	1.5	16:30
NZ	GDT avg. winning price			3623	
US	Fed's Dudley Speaks at US Virgin Islands				01:30
NZ	QV house prices (y/y%)	Feb		6.4	05:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7221	-0.2	0.7203	0.7242	CHF	0.9401	+0.3	S&P 500	2,714	+0.9	13.9	Oil (Brent)	65.55	+1.8
AUD	0.7757	-0.0	0.7726	0.7767	SEK	8.251	+0.1	Dow	24,789	+1.0	18.0	Oil (WTI)	62.55	+2.1
EUR	1.2334	+0.1	1.2269	1.2349	NOK	7.824	+0.4	Nasdaq	7,329	+1.0	24.8	Gold	1320.5	-0.2
GBP	1.3846	+0.3	1.3767	1.3877	HKD	7.833	+0.0	Stoxx 50	3,355	+0.9	-1.4	HRC steel	834.0	-0.2
JPY	106.17	+0.4	105.35	106.18	CNY	6.350	+0.1	FTSE	7,116	+0.7	-3.5	CRB	196.3	+1.1
CAD	1.2978	+0.7			SGD	1.318	-0.1	DAX	12,091	+1.5	0.5	Wheat Chic.	505.0	+1.0
NZD/AUD	0.9309	-0.2			IDR	13,762	+0.0	CAC 40	5,167	+0.3	3.4	Sugar	13.56	+1.0
NZD/EUR	0.5855	-0.4			THB	31.42	-0.1	Nikkei	21,042	-0.7	8.6	Cotton	82.60	-0.1
NZD/GBP	0.5215	-0.6			KRW	1,082	+0.1	Shanghai	3,257	+0.1	0.7	Coffee	120.6	-1.3
NZD/JPY	76.67	+0.2			TWD	29.31	+0.1	ASX 200	5,895	-0.6	2.6	WM powder	3145.0	-0.3
NZD/CAD	0.9371	+0.6			PHP	51.95	+0.1	NZX 50	8,280	-0.1	15.3	Australian Futures		
NZ TWI	74.56	-0.1										3 year bond	97.9	0.00
												10 year bond	97.22	-0.02

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	Last	Last			
USD	1.50	2.03	2.51	2.90	USD	2.89	0.03	NZGB 3 04/15/20	1.90	0.01	1 year	2.02	-0.01
AUD	1.50	1.82	2.04	2.97	AUD	2.74	0.01	NZGB 6 05/15/21	2.08	0.02	2 year	2.20	0.00
NZD	1.75	1.90	2.20	3.20	NZD	2.96	0.04	NZGB 5 1/2 04/15/23	2.41	0.02	5 year	2.70	0.00
EUR	0.00	0.06	-0.12	1.09	GER	0.64	-0.01	NZGB 2 3/4 04/15/25	2.74	0.03	7 year	2.95	0.00
GBP	0.50	0.58	1.04	1.61	GBP	1.50	0.02	NZGB 4 1/2 04/15/27	2.96	0.04	10 year	3.20	0.01
JPY	-0.06	-0.06	0.05	0.26	JPY	0.04	-0.03	NZGB 3 1/2 04/14/33	3.33	0.04	15 year	3.45	0.01
CAD	1.25	1.17	2.13	2.58	CAD	2.20	0.00	NZGB 2 3/4 04/15/37	3.47	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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