

7 April 2017

Events Round-Up

CH: Caixin PMI services, Mar: 52.1 vs. 52.6 prev.

GE: Factory orders (m/m%), Feb: 3.4 vs. 4.0 exp.

US: Initial jobless claims, wk to 1 Apr: 234 vs. 250 exp.

Good Morning

As we went to print yesterday the market was still digesting the FOMC minutes and the end result was a tumble in US equities (about 1%), lower UST yields and a weaker USD. That seemed like an over-reaction to the suggestion in the minutes that the Fed might begin to stop reinvesting the securities on its balance sheet as they mature from later this year. The more definitive timing was the only real news. In the last 24 hours we have seen some reversal of that move, with US equities clawing back about a quarter of that loss, the US 10-year rate back up to its pre-FOMC minutes level of 2.35% and a slight recovery in the USD.

The Fed's Williams, often seen as a clone of Chair Yellen as they used to work closely together, in talking about the time it'll take to reduce the size of the Fed's balance sheet, said that it'll be "something like 5 years". He reiterated Dudley's view last week that any balance sheet adjustment would likely be met with a slower pace of rate hikes.

With a lack of data releases, the focus overnight was the ECB, with a number of key speakers on the circuit and the release of the minutes from its last meeting. Divisions were highlighted within the committee about when and how aggressively to rein in easy money. The minutes showed that "...on balance, removing the downward bias on interest rates in the present formulation of the Governing Council's forward guidance was seen as premature".

ECB President Draghi was at the dovish end of the spectrum, praising the impact of negative interest rates, and said he saw no reason to depart from the bank's current guidance. That guidance states that rates won't rise until "well past the horizon of [the ECB's] net asset purchases." Bundesbank President Weidmann differed, saying that he would favour reining in the monetary stimulus given the improved economic outlook.

The lack of news, other than the ECB mumblings, has resulted in a lack of currency gyrations. The market is keeping its powder dry for tonight's US non-farm payrolls release and will be looking out for news snippets as the Trump-Xi summit begins.

For a change, the NZD is near the top of the leaderboard, although the modest across-the-board appreciation is not statistically significant. NZD/USD has traded within a tight 30pip range and currently sits at 0.6970.

The AUD is on the soft side, which sees NZD/AUD up 0.4% to 0.9240. There has been a lot of attention recently on the Australian housing market, debt levels, and APRA's fresh macro prudential measures to protect the banking system. The AUD has been fairly bullet-proof over the last month or two over a period where the NZD has underperformed. So it wouldn't surprise us if NZD/AUD pushed on higher over the next month or two to make up some of that lost ground.

The EUR fell 50pips as Draghi spoke, before making up some of that fall and trades this morning around 1.0645. This sees NZD/EUR around 0.6550. There's little to say on GBP or JPY other than the NZD has increased a little on both crosses to be 0.5590 and 77.3 respectively.

There's not a lot to say about the rates market. Reaction to the ECB news was fairly limited for German bunds. The 10-year rate is little changed at 0.26%. US Treasury rates are up 1-2bps across the curve, with the 10-year rate trading within a tight 4bps range over the past 24 hours. The market feels like it doesn't want to do much ahead of tonight's employment report. Market consensus is for a 180k lift in non-farm payrolls, a little depressed by the weather in March, and average hourly earnings slipping a touch to 2.7% y/y. If that's the case, the market will still be evenly split on whether the Fed will raise rates again as soon as June (the May meeting is seen as unlikely). If the Fed is looking to change its reinvestment policy on MBS and Treasuries from late this year, then it might make sense to raise rates in June and September and then pause in December.

The local rates market has seen plenty of receiving interest from offshore investors of late, supported by the move down in global rates. Swap rates were down 1-2bps across the curve yesterday, with the 2-year rate at 2.27%, the 5-year rate at 2.825% and the 10-year rate at 3.34%. In all cases, these were the lowest closes since December. At the longer end, it's a reflection of US Treasury yields trading near the bottom of the range, while the shorter end of the curve has been more influenced by the expectation of a lack of RBNZ policy action over the next 12 months. Recent increases in mortgage rates – there have been more this week – suggest that monetary conditions are tightening for some anyway, in the absence of OCR moves.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	Industrial production (y/y%)	Feb	0.5	0.0	18:00
GE	Trade balance (€bn)	Feb	17.7	14.8	18:00
UK	Industrial production (m/m%)	Feb	0.2	-0.4	20:30
CH	Foreign Reserves (USDbn)	Mar	3011	3005	
US	Chge in nonfarm payrolls ('000)	Mar	180	235	00:30
US	Unemployment rate (%)	Mar	4.7	4.7	00:30
US	Average hrly earnings (m/m%)	Mar	0.2	0.2	00:30
US	Average hourly earnings (y/y%)	Mar	2.7	2.8	00:30

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	0.6969	+0.1	0.6966	0.6990	CHF	1.0052	+0.0		S&P 500	2,359	+0.2	14.1	Oil (Brent)	54.87	+1.0
AUD	0.7544	-0.3	0.7533	0.7568	SEK	9.019	+0.3		Dow	20,693	+0.2	16.8	Oil (WTI)	51.71	+1.1
EUR	1.0644	-0.2	1.0629	1.0680	NOK	8.619	+0.1		Nasdaq	5,876	+0.2	19.4	Gold	1250.8	+0.4
GBP	1.2470	-0.1	1.2450	1.2506	HKD	7.770	+0.0		Stoxx 50	3,490	+0.5	19.9	HRC steel	655.0	+2.3
JPY	110.86	+0.1	110.37	111.14	CNY	6.898	+0.0		FTSE	7,303	-0.4	18.5	CRB	186.8	+0.3
CAD	1.3414	-0.2			SGD	1.403	+0.1		DAX	12,231	+0.1	27.1	Wheat Chic.	436.0	-1.5
NZD/AUD	0.9238	+0.4			IDR	13,328	+0.1		CAC 40	5,121	-0.4	19.5	Sugar	16.45	+2.2
NZD/EUR	0.6547	+0.3			THB	34.62	+0.2		Nikkei	18,597	-1.4	18.1	Cotton	74.51	-0.5
NZD/GBP	0.5589	+0.2			KRW	1,133	+0.8		Shanghai	3,281	+0.3	9.1	Coffee	137.8	+0.3
NZD/JPY	77.26	+0.2			TWD	30.54	+0.5		ASX 200	5,856	-0.3	18.0	W/M powder	3010.0	+0.3
NZ TWI	76.15	+0.2			PHP	50.16	-0.0		NZX 50	7,290	+0.3	7.9	Australian Futures		
										3 year bond		98.15	0.00		
										10 year bond		97.39	0.00		
Interest Rates						NZ Government Bonds				NZ Swap Yields					
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last					
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day		Last		Last				
USD	1.00	1.15	1.58	2.33	USD	2.34	0.01	NZGB 3 04/15/20	2.275	-0.01	1 year	2.068	-0.00		
AUD	1.50	1.79	1.85	2.88	AUD	2.58	-0.02	NZGB 6 05/15/21	2.415	-0.02	2 year	2.268	-0.02		
NZD	1.75	2.00	2.27	3.34	NZD	3.09	-0.01	NZGB 5 1/2 04/15/23	2.725	-0.00	5 year	2.828	-0.02		
EUR	0.00	0.06	-0.15	0.73	GER	0.26	0.01	NZGB 2 3/4 04/15/25	2.995	-0.01	7 year	3.093	-0.02		
GBP	0.25	0.34	0.59	1.14	GBP	1.10	0.01	NZGB 4 1/2 04/15/27	3.090	-0.01	10 year	3.343	-0.01		
JPY	-0.05	0.04	0.05	0.25	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.435	-0.00	15 year	3.635	-0.02		
CAD	0.50	1.17	1.10	1.85	CAD	1.55	-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 06:49

Source: Bloomberg

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