

7 March 2018



Events Round-Up

AU: Current a/c balance (\$b), Q4: -14.0 vs. -12.2 exp.
AU: Net exports (%pt contrib.GDP), Q4: -0.5 vs. -0.6 exp.
AU: Retail sales (m/m%), Jan: 0.1 vs. 0.4 exp.
AU: RBA cash rate target (%), Mar: 1.5 vs. 1.5 exp.
NZ: GDT avg. winning price: -0.6%
NZ: QV house prices (y/y%), Feb: 6.5 vs.6.4 prev.

Good Morning

The NZD has outperformed following some positive newsflow on North/South Korea relations, taking Trump's tariff proposals off the front pages. Equity and bond markets only show modest changes.

North Korean leader Kim Jong Un told a visiting South Korean delegation that he was willing to hold talks with the US about giving up nuclear weapons and normalising relations with Washington, and would halt weapons tests during any negotiations. US officials are sceptical that North Korea has changed its stripes. The market reacted with emerging market currencies and risk-currencies like the NZD getting a boost. The S&P500 opened 0.4% higher but has since moved into modest negative territory. US 10-year yields moved up 3bps to a high of 2.90% but have since retreated to 2.87%.

So the initial sugar rush from the news on North Korea has already begun to fade. The EM currency index has lost half of its gains but surprisingly the NZD has managed to hold up, making it the top performing major currency since this time yesterday and for the overnight session. The overnight high was 0.7311 and it has slipped back to around 0.73, about 1% higher compared to yesterday morning. The overnight GDT auction didn't surprise, with a small slippage in pricing as forewarned by NZX dairy futures. QV house price data released early this morning showed little change in house price inflation, running around 6.5% y/y.

The AUD has pushed up through 0.78, but the NZD's outperformance sees NZD/AUD back up to 0.9335 after a temporary move sub-0.93 yesterday afternoon. The RBA's policy statement was little changed and didn't spark much market reaction. Earlier in the session, Australian data were mixed. There is potential modest upside risk to the consensus estimate of 0.5% q/q for today's Q4 GDP reading following slightly better indicators that feed into

the figure, while timelier retail sales data were disappointing.

Following the North Korea news, typical safe-havens such as CHF, JPY and USD have underperformed. USD indices are down in the order of 0.4-0.5%. President Trump is getting significant pushback on his steel and aluminium tariff proposal from his fellow Republicans. The WSJ reports that top Republicans overseeing trade policy have begun circulating a letter to Trump, warning that tariffs are a bad idea and Congressional Republican leaders aren't ruling out potential legislative action aimed at blocking such tariffs. Trump's economic advisor Cohn has been summoning executives from US companies that depend on the metals to meet this week with Trump to try to blunt or halt the tariffs and this will delay an announcement until next week. Meanwhile the EU is preparing punitive tariffs on iconic US brands produced in key Republican constituencies. As NAFTA negotiations continue, the US has formally offered to exclude Canada and Mexico from Trump's planned tariffs on steel and aluminium but subject to a new trade agreement.

BoJ Governor Kuroda was trying to backtrack on his monetary policy comments made last week about the possibility of withdrawing monetary stimulus beginning April 2019. He told lawmakers that less stimulus before reaching the CPI target is "unthinkable"... "I said that we would be discussing how to move forward with exit. I never said we would be exiting immediately in fiscal 2019". USD/JPY trades near 106 this morning, while NZD/JPY has recovered further away from the 76 support level and trades at 77.4.

Gains in EUR and GBP reflect broad USD weakness. Bloomberg reported that the EU is planning to keep the final wording on the transitional Brexit agreement on the future trade relationship fairly vague. This would leave the UK in the vulnerable position of having to negotiate substantial chunks of a trade deal after losing much of its leverage.

There isn't a lot to say about the rates market with the US 10-year Treasury yield currently down one basis point from the NZ close to 2.87% after the brief overnight move to 2.90% near the US open. The Fed's Kaplan reiterated that his "base case" is for three hikes this year. This reduces the chance of the Fed projecting four hikes this year at its meeting later this month, with four FOMC members required to increase their Fed Funds dot to push the median higher. The move up in local rates yesterday, 5bps for 10-year swaps and government rates, mostly reflected the previous session's move in US rates.

In addition to the aforementioned Australian GDP data today, RBA Governor Lowe will be speaking. Known Fed dove Brainard also hits the wires before lunchtime. Three more Fed speakers will be out today/overnight. On the datafront, US ADP employment will be released ahead of the more important payrolls release at the end of the week. The Bank of Canada is expected to keep rates on hold, with NAFTA negotiations overhanging the economic outlook.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA Governor Lowe gives speech in Sydney				10:35
NZ	Vol. building work (q/q%)	Q4	1.0	2.7	10:45
US	Fed's Brainard to speak in New York				11:30
AU	GDP (q/q%)	Q4	0.5	0.6	13:30
AU	GDP (y/y%)	Q4	2.5	2.8	13:30
US	Fed's Kaplan speaks at energy conference				14:30
EC	GDP (q/q%)	Q4	0.6	0.6	23:00
US	Fed's Dudley speaks in Puerto Rico				02:00
US	Fed's Bostic speaks on the economic outlook				02:00
US	ADP employment chge ('000)	Feb	200	234	02:15
US	Trade balance (\$b)	Jan	-55.0	-53.1	02:30
CA	Bank of Canada rate (%)	Mar	1.25	1.25	04:00

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	0.7295	+1.0	0.7231	0.7311	CHF	0.9402	+0.0	S&P 500	2,720	-0.0	14.5	Oil (Brent)	65.68	+0.2
AUD	0.7817	+0.7	0.7757	0.7842	SEK	8.225	-0.4	Dow	24,867	-0.0	18.7	Oil (WTI)	62.49	-0.1
EUR	1.2391	+0.4	1.2328	1.2420	NOK	7.791	-0.4	Nasdaq	7,370	+0.5	26.0	Gold	1336.9	+1.3
GBP	1.3879	+0.2	1.3817	1.3930	HKD	7.834	+0.0	Stoxx 50	3,358	+0.1	-0.9	HRC steel	824.0	-0.7
JPY	106.25	+0.0	105.85	106.44	CNY	6.315	-0.6	FTSE	7,147	+0.4	-2.8	CRB	196.8	+0.1
CAD	1.2904	-0.5			SGD	1.317	-0.1	DAX	12,114	+0.2	1.3	Wheat Chic.	503.8	-1.2
NZD/AUD	0.9332	+0.3			IDR	13,776	+0.1	CAC 40	5,170	+0.6	4.0	Sugar	13.48	-0.6
NZD/EUR	0.5887	+0.5			THB	31.29	-0.4	Nikkei	21,418	+1.8	10.7	Cotton	85.35	-0.1
NZD/GBP	0.5256	+0.7			KRW	1,076	-0.6	Shanghai	3,290	+1.0	1.5	Coffee	121.0	-0.1
NZD/JPY	77.51	+1.0			TWD	29.31	+0.0	ASX 200	5,962	+1.1	3.5	WM powder	3145.0	-0.3
NZD/CAD	0.9413	+0.5			PHP	52.03	+0.1	NZX 50	8,328	+0.6	16.2	Australian Futures		
NZ TWI	74.99	+0.6										3 year bond	97.89	-0.01
												10 year bond	97.21	-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	1.50	2.03	2.52	2.89	USD	2.88	-0.00	NZGB 3 04/15/20	1.93	0.03	1 year	2.02	0.00	
AUD	1.50	1.85	2.03	2.97	AUD	2.82	0.08	NZGB 6 05/15/21	2.12	0.04	2 year	2.22	0.02	
NZD	1.75	1.90	2.21	3.25	NZD	3.01	0.05	NZGB 5 1/2 04/15/23	2.45	0.04	5 year	2.74	0.04	
EUR	0.00	0.06	-0.12	1.10	GER	0.68	0.03	NZGB 2 3/4 04/15/25	2.79	0.05	7 year	2.99	0.05	
GBP	0.50	0.59	1.04	1.63	GBP	1.52	0.03	NZGB 4 1/2 04/15/27	3.01	0.05	10 year	3.25	0.05	
JPY	-0.06	-0.05	0.05	0.26	JPY	0.06	0.01	NZGB 3 1/2 04/14/33	3.39	0.06	15 year	3.50	0.05	
CAD	1.25	1.17	2.14	2.60	CAD	2.22	0.03	NZGB 2 3/4 04/15/37	3.53	0.06				

* 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 06:57

Source: Bloomberg

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