

8 March 2018



## Events Round-Up

NZ: Vol. building work (q/q%), Q4: 1.4 vs. 1.0 exp.

AU: GDP (q/q%), Q4: 0.4 vs. 0.5 exp.

EC: GDP (q/q%), Q4: 0.6 vs. 0.6 exp.

US: ADP employment chge ('000), Feb: 235 vs. 200 exp.

US: Trade balance (\$b), Jan: -56.6 vs. -55.0 exp.

CA: Bank of Canada rate (%), Mar: 1.25 vs. 1.25 exp.

## Good Morning

The risk-off mood that developed during the local session yesterday, as US trade policy remained in the spotlight, has been sustained overnight, seeing the NZD modestly weaker, alongside weaker US equities.

The mood of the market deteriorated yesterday after Trump's top economic advisor Gary Cohn resigned ahead of Trump's planned import tariffs. He was seen to be a market-friendly member of Trump's team and was an advocate for free-trade policy. With one stumbling block to introducing tariffs out of the way, Trump's spokeswoman indicated that the details of the new tariff policy could be announced at the end of this week. During the Asian trading session US equity futures were down by more than 1% and Treasury futures opened stronger. Alongside this news, Bloomberg ran a story that Trump is considering imposing tariffs on a broad range of China imports to punish the government for its alleged theft of intellectual property, adding to the glum mood.

In overnight news, Commerce Secretary Ross tried to assuage concerns, saying the US is looking at a "surgical approach" to tariffs, while Treasury Secretary Mnuchin sought to assure investors that the proposed measures will have carve-outs. Trump tweeted that "China has been asked to develop a plan for the year of a One Billion Dollar reduction in their massive Trade Deficit with the United States". Either Trump's maths is bad (don't rule this out) or concerns about a potential trade war are overblown, as the US trade deficit with China is about \$36b, and targeting a \$1b reduction is within the realms of rounding error. Earlier in the session the reported US trade deficit for January was higher than the advance estimate, taking it to a post-GFC high, which can only fuel Trump's desire for take action to reduce the deficit.

The USD is flat to stronger against all the majors overnight, although movements haven't been particularly

significant. USD/CAD got as high as 1.30 following the BoC policy announcement, which was seen as slightly on the dovish side. The BoC left rates on hold and repeated its message of the previous statement about moving cautiously with further rate hikes. It added to the statement some concerns about trade, saying that recent development have become "an important and growing source of uncertainty". NZD/CAD is up to 0.9435, its highest level since July.

Against the risk-off mood yesterday, the NZD held up pretty well hovering most of the day between 0.7280-0.7300, but a slightly better tone for the USD saw the NZD drift down to 0.7260 this morning. The AUD saw about 40pips of downward pressure following RBA Lowe's speech, not that it revealed much new. He continued to run the line that the central scenario was that rates would rise, but "this is not inevitable" and it depends on "how quickly we get unemployment down". Australian Q4 GDP came in slightly softer than expected but by then traders were ready to fade the post-Lowe low. NZD/AUD got as high as 0.9370 yesterday, but has since retreated down to 0.9320.

Yesterday, USD/JPY fell to as low as 105.46 in the aftermath of Cohn's resignation but a general bid tone for the USD sees it up nearer 106 now. Brexit news continues to hang over GBP and EUR. The FT's lead story is that the "EU rebuffs UK vision for post-Brexit trade", but EUR/GBP is about where it was this time yesterday and EUR/USD and GBP/USD are almost identical versus 24 hours ago.

US 10-year Treasuries have traded a 2.84-2.88% range and currently sit at 2.86%, near the level of the NZ close. ADP employment was stronger than expected, setting the scene for a strong payrolls figure (200k+?) on Friday. Overnight, the Fed's Bostic said that he had adjusted his rate hike forecast to 3 hikes from the 2 hikes that he projected in December. Later when probed by reporters he indicated that a potential trade war could dampen the need for rate hikes and he was taking a "wait-and-see" approach. Yesterday, perennial dove Brainard sounded more upbeat than usual, talking of headwinds turning into tailwinds for the economy. This was seen to add to the case for continued gradual increases in the Fed Funds rates. Yesterday, NZ rates were down slightly, supported by the risk-off mood.

The key release on the calendar ahead is the ECB meeting. Policymakers are likely to discuss a small tweak in their communications but no major policy shift is

expected. The pledge to possibly increase asset purchases if conditions deteriorate might well be removed. Last week Reuters reported that concern about recent market turbulence, the strong euro and a dip in both headline and underlying inflation, suggest officials prefer waiting, perhaps as late as July, before starting to signal the end of asset purchases.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufact. activity vol (q/q%)	Q4		0.3	10:45
AU	Trade balance (\$b)	Jan	160	-1358	13:30
GE	Factory orders (y/y%)	Jan	11.5	7.2	20:00
CH	Trade balance (\$b)	Feb	-7.05	20.34	
CH	Imports (\$, y/y%)	Feb	8.0	36.9	
CH	Exports (\$, y/y%)	Feb	11.0	11.1	
EC	ECB deposit facility rate (%)		-0.4	-0.4	01:45

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Other FX				Major Indices			Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day		Last	Net Day	
NZD	0.7271	-0.3	0.7255	0.7300	CHF	0.9439	+0.4		S&P 500	2,709	-0.7	14.4	Oil (Brent)	63.96	-2.8
AUD	0.7801	-0.4	0.7788	0.7829	SEK	8.246	+0.5		Dow	24,585	-1.2	17.5	Oil (WTI)	60.73	-3.0
EUR	1.2398	-0.0	1.2385	1.2444	NOK	7.824	+0.6		Nasdaq	7,348	-0.3	26.0	Gold	1326.2	-0.7
GBP	1.3885	-0.0	1.3846	1.3912	HKD	7.836	+0.0		Stoxx 50	3,377	+0.6	-0.2	HRC steel	819.0	-0.6
JPY	105.94	-0.2	105.51	106.22	CNY	6.325	+0.2		FTSE	7,158	+0.2	-2.5	CRB	194.4	-1.2
CAD	1.2978	+0.8			SGD	1.316	-0.0		DAX	12,245	+1.1	2.3	Wheat Chic.	502.5	-0.9
NZD/AUD	0.9321	+0.1			IDR	13,760	-0.1		CAC 40	5,188	+0.2	4.7	Sugar	12.91	-4.0
NZD/EUR	0.5865	-0.2			THB	31.35	+0.2		Nikkei	21,253	-0.8	10.4	Cotton	83.84	-1.8
NZD/GBP	0.5237	-0.3			KRW	1,069	-0.6		Shanghai	3,272	-0.5	1.0	Coffee	120.8	-0.4
NZD/JPY	77.03	-0.5			TWD	29.25	-0.2		ASX 200	5,902	-1.0	2.5	WM powder	3185.0	+1.3
NZD/CAD	0.9436	+0.5			PHP	52.00	-0.1		NZX 50	8,284	-0.5	15.4	<b>Australian Futures</b>		
NZ TWI	74.83	-0.2											3 year bond	97.9	0.02
													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		
USD	1.50	2.05	2.53	2.88	USD	2.86	-0.02	NZGB 3 04/15/20	1.92	-0.02	1 year	2.02	0.00		
AUD	1.50	1.87	2.03	2.97	AUD	2.79	-0.03	NZGB 6 05/15/21	2.10	-0.02	2 year	2.21	-0.00		
NZD	1.75	1.90	2.21	3.25	NZD	3.00	-0.01	NZGB 5 1/2 04/15/23	2.44	-0.02	5 year	2.73	-0.00		
EUR	0.00	0.06	-0.12	1.08	GER	0.66	-0.02	NZGB 2 3/4 04/15/25	2.77	-0.02	7 year	2.99	-0.01		
GBP	0.50	0.60	1.03	1.60	GBP	1.49	-0.03	NZGB 4 1/2 04/15/27	3.00	-0.01	10 year	3.25	-0.01		
JPY	-0.05	-0.05	0.05	0.26	JPY	0.05	-0.01	NZGB 3 1/2 04/14/33	3.38	-0.00	15 year	3.49	-0.01		
CAD	1.25	1.17	2.14	2.60	CAD	2.21	-0.02	NZGB 2 3/4 04/15/37	3.53	-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 07:00

Source: Bloomberg

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