

8 May 2018



## Events Round-Up

AU: NAB business conditions, Apr: 21 vs. 14 prev.

AU: NAB business confidence, Apr: 10 vs. 7 prev.

GE: Factory orders (y/y%), Mar: 3.1% vs. 5% exp.

## Good Morning

Oil prices pushed on to a new post-2014 high overnight ahead of President Trump's decision tomorrow on whether to re-impose sanctions on Iran. Equity markets are also higher, buoyed unsurprisingly by energy stocks. Elsewhere, markets were very quiet, with no major data released and the UK on public holiday.

The main market mover over the past 24 hours has been oil, with Brent Crude oil rising almost 2% to over \$76 per barrel and WTI breaking above \$70, although prices have since eased back after a media report that Europe and the EU were close to reaching a deal to avert sanctions on Iran. President Trump announced he would make the decision on whether to re-impose sanctions on Iran tomorrow at 2pm (6am NZT). While foreign politicians have been lobbying Trump to stick with international agreement (including UK Foreign Secretary Boris Johnson on Fox and Friends overnight), in an interview over the weekend, his lawyer Rudy Giuliani implied he was likely to pull out.

Iran has increased oil production by around 1m barrels per day since sanctions were lifted in 2015 (around 1% of global oil output), and analysts suggest global supply could be reduced by 500,000 to up to 1m barrels per day if Trump pulls out of the deal. The managing director of the National Iranian Oil Company said over the weekend that Iran intended to divert production towards China and India if sanctions were re-imposed, but acknowledged that the (less than) 300,000 barrels per day Iran exports to Europe would be hit. With oil inventories having declined sharply over the past year amid OPEC's supply cuts and robust global demand, the market is potentially vulnerable to a supply disruption and is building in some risk premium. Saudi Arabia's energy minister gave no indication that OPEC intended to make up any shortfall in supply, saying overnight that "*we are concerned about tight spare capacity....we certainly don't feel we are where we need to be with complete market stability.*"

The rise in oil prices has boosted energy stocks, which were the best performing sector (+1.5%) of the S&P500 overnight. US equity indices are up between 0.75% and 1.1%, following on from the gains seen on Friday after the payrolls report. The VIX has nudged a little lower, and is now almost back to the levels seen before the volatility spike in early February.

Currency market moves have been very modest, with London out for the early May Bank holiday. The USD is generally stronger, with the Bloomberg DXY and the (euro-centric) DXY both making new highs for 2018. Weaker than expected German factory orders, yet another disappointing economic activity data point from the Eurozone, weighed on the euro. The NZD is unchanged from this time yesterday, at 0.7020.

The GBP is the strongest currency in the G10, albeit in light trading, having consolidated above support at 1.35. On Brexit-related matters, Business Secretary Greg Clark said over the weekend that Theresa May's preferred "customs partnership" arrangement (a complicated alternative to the present customs union) was still "*on the table*", despite being voted down (by 6 to 5) by her internal cabinet last week. Backers of the plan say the alternative is that pro-EU Conservative MPs will likely join forces with Labour and the Lib Dems in the House of Commons to keep the UK in a full Customs Union. A resolution around the Customs Union would be GBP-positive, although there is still the lingering risk that eurosceptic Conservative backbenchers could force a leadership challenge. Later this week, the Bank of England meets on Thursday, with expectations for a rate hike having been scaled back to only 10%. The market will be looking for guidance on the prospect for future moves this year; an August hike is 65% priced at present.

US Treasury yields are basically unchanged overnight, although breakeven inflation rose back close to its recent highs (2.17%) on the back of the earlier rise in oil prices. There was no major economic data released in the US and the focus in the coming 24 hours (besides President Trump's decision on Iran) will be a speech by Fed Chair Powell. If recent comments by his FOMC colleagues are anything to go by, Powell will likely say that the Fed doesn't have a problem with inflation rising a bit above the 2% target.

[nick.smyth@bnz.co.nz](mailto:nick.smyth@bnz.co.nz)

Coming Up

|    |  | Period | Cons. | Prev.  | NZT   |
|----|--|--------|-------|--------|-------|
| US | Fed's Evans Speaks At Atlanta Fed Financial Markets Conference |        |       |        | 07:30 |
| AU | Retail Sales MoM   | Mar    | 0.2   | 0.6    | 13:30 |
| NZ | 2Yr Inflation Expectation                                      | 2Q     |       | 2.11   | 15:00 |
| GE | Industrial Production y/y%                                     | Mar    | 3     | 2.6    | 18:00 |
| US | Fed's Powell to Speak at SNB/IMF Event in Zurich               |        |       |        | 19:15 |
| CH | Trade Balance  | Apr    | 27.5  | -4.983 |       |

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                             | 0.7020 | +0.0  | 0.6995 | 0.7030 | CHF         | 1.0026 | +0.3                  |         | S&P 500             | 2,681  | +0.7  | 11.7           |         | Oil (Brent)               | 76.19   | +1.5 |
| AUD                             | 0.7519 | -0.3  | 0.7493 | 0.7530 | SEK         | 8.826  | +0.3                  |         | Dow                 | 24,443 | +0.5  | 16.4           |         | Oil (WTI)                 | 70.73   | +1.3 |
| EUR                             | 1.1924 | -0.3  | 1.1898 | 1.1961 | NOK         | 8.054  | -0.1                  |         | Nasdaq              | 7,290  | +1.0  | 19.5           |         | Gold                      | 1315.0  | -0.0 |
| GBP                             | 1.3560 | +0.2  | 1.3516 | 1.3575 | HKD         | 7.850  | +0.0                  |         | Stoxx 50            | 3,564  | +0.4  | -2.6           |         | HRC steel                 | 860.0   | -0.2 |
| JPY                             | 109.09 | -0.0  | 109.02 | 109.40 | CNY         | 6.367  | +0.1                  |         | FTSE                | 7,567  | +0.9  | 3.7            |         | CRB                       | 203.7   | +0.2 |
| CAD                             | 1.2863 | +0.1  |        |        | SGD         | 1.335  | +0.1                  |         | DAX                 | 12,948 | +1.0  | 1.8            |         | Wheat Chic.               | 528.8   | -2.4 |
| NZD/AUD                         | 0.9336 | +0.3  |        |        | IDR         | 14,001 | +0.4                  |         | CAC 40              | 5,531  | +0.6  | 1.8            |         | Sugar                     | 11.32   | -1.1 |
| NZD/EUR                         | 0.5887 | +0.3  |        |        | THB         | 31.86  | +0.3                  |         | Nikkei              | 22,467 | -0.0  | 12.9           |         | Cotton                    | 85.99   | -1.0 |
| NZD/GBP                         | 0.5177 | -0.2  |        |        | KRW         | 1,078  | +0.1                  |         | Shanghai            | 3,137  | +1.5  | 1.9            |         | Coffee                    | 120.8   | -1.5 |
| NZD/JPY                         | 76.58  | -0.0  |        |        | TWD         | 29.77  | +0.2                  |         | ASX 200             | 6,084  | +0.4  | 3.6            |         | WM powder                 | 3285.0  | -0.5 |
| NZD/CAD                         | 0.9030 | +0.1  |        |        | PHP         | 51.90  | +0.4                  |         | NZX 50              | 8,588  | +0.5  | 15.6           |         | <b>Australian Futures</b> |         |      |
| NZ TWI                          | 73.63  | +0.1  |        |        |             |        |                       |         |                     |        |       |                |         | 3 year bond               | 97.81   | 0.02 |
|                                 |        |       |        |        |             |        |                       |         |                     |        |       |                |         | 10 year bond              | 97.24   | 0.02 |
| <b>Interest Rates</b>           |        |       |        |        |             |        |                       |         |                     |        |       |                |         |                           |         |      |
|                                 |        | 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  | 2.37   | 2.77   | 2.99        | USD    | 2.95                  | 0.00    | NZGB 6 05/15/21     |        | 2.05  | -0.02          | 1 year  | 2.12                      | 0.00    |      |
| AUD                             |        | 1.50  | 2.00   | 2.11   | 2.91        | AUD    | 2.76                  | -0.02   | NZGB 5 1/2 04/15/23 |        | 2.33  | -0.01          | 2 year  | 2.27                      | -0.01   |      |
| NZD                             |        | 1.75  | 2.04   | 2.28   | 3.20        | NZD    | 2.77                  | -0.02   | NZGB 2 3/4 04/15/25 |        | 2.59  | -0.02          | 5 year  | 2.73                      | -0.01   |      |
| EUR                             |        | 0.00  | 0.06   | -0.15  | 0.96        | GER    | 0.53                  | -0.01   | NZGB 4 1/2 04/15/27 |        | 2.77  | -0.02          | 7 year  | 2.96                      | -0.01   |      |
| GBP                             |        | 0.50  | 0.67   | 1.03   | 1.56        | GBP    | 1.40                  | 0.00    | NZGB 3 04/20/29     |        | 2.95  | -0.01          | 10 year | 3.20                      | -0.01   |      |
| JPY                             |        | -0.07 | -0.03  | 0.05   | 0.26        | JPY    | 0.05                  | 0.00    | NZGB 3 1/2 04/14/33 |        | 3.14  | -0.01          | 15 year | 3.46                      | -0.02   |      |
| CAD                             |        | 1.25  | 1.17   | 2.28   | 2.68        | CAD    | 2.33                  | -0.00   | NZGB 2 3/4 04/15/37 |        | 3.32  | -0.02          |         |                           |         |      |

\* 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 06:44

Source: Bloomberg

## Contact Details

**Jason Wong**

Senior Markets Strategist  
+64 4 924 7652

**Nick Smyth**

Interest Rate Strategist  
+64 4 924 7653

## National Australia Bank

**Ray Attrill**

Head of FX Strategy  
+61 2 9237 1848

**Rodrigo Catril**

Senior FX Strategist  
+61 2 9293 7109

**Gavin Friend**

Senior Market Strategist  
+44 20 7710 1588

**Skye Masters**

Head of Fixed Income Research  
+61 2 9295 1196

**Alex Stanley**

Senior Interest Rate Strategist  
+61 2 9237 8154

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