

9 February 2018



Events Round-Up

NZ: RBNZ Official Cash Rate, Feb: 1.75% vs. 1.75% exp.

AU: NAB Business Confidence, 4Q: 6 vs. 7 prev.

CH: Trade Balance, Jan: \$20.3b vs. \$54.6b exp.

UK: Bank of England Bank Rate, Feb: 0.5% vs. 0.5% exp.

Good Morning

Stock markets are lower overnight and US Treasury yields higher, and markets remain reasonably volatile. The Bank of England surprised markets by saying it expected to raise interest rates earlier and faster than previously thought. The USD continued its recent mini resurgence and is up against most of the major currencies (the GBP being one exception).

US stock markets remain in focus after the huge moves earlier this week. After recovering over the past few days, the S&P500 is around 2% lower today. European stock markets were weaker as well, with most bourses down over 2%. Overnight, there was more positive news on US corporate earnings, with Twitter beating analyst expectations (78% of US corporates have now beaten expectations this earnings season). Market commentators blamed the weakness in US stocks to a renewed rise in US Treasury yields; the 10 year yield rose back to 2.88% earlier in the session, although it has fallen back around 4bps. It will probably take some days yet before market volatility settles down.

There was no obvious trigger for the rise in 10 year Treasury yields from 2.80% yesterday morning to 2.88% a few hours ago (it has since fallen back a little). More Fed officials brushed off the recent bout of market volatility last night including Philadelphia Fed President Harker who said it hadn't changed his economic outlook and noted that broader financial conditions were still highly accommodative. That was echoed by NY Fed President Dudley who described the stock market sell-off seen to-date as "small potatoes". Dudley added that four hikes this year were possible if the economic outlook strengthened. Given the market's growing anxiety about potentially higher US wage and price inflation, the release of US core CPI next week will be a major focus.

The USD was stronger against most currencies overnight with the exception of the yen and the Swiss franc (both safe haven beneficiaries) and the GBP (due to the hawkish BoE – see below). The Bloomberg DXY is at 2

week highs but remains down for the year. The appreciating USD has probably weighed on commodities, with Brent crude oil now almost 10% off its highs reached in late January. A pick-up in US oil production has also reportedly contributed to the decline in the oil price, as the shale oil industry starts to gear up production again.

The GBP initially strengthened over a percent after BoE Governor Carney noted that "*monetary policy would need to be tightened somewhat earlier and by a somewhat greater extent over the forecast period*". The BoE upgraded their growth forecasts for the coming few years a bit, mainly due to the more positive global environment. And it continued to highlight the lack of spare capacity in the economy, with the unemployment rate at a multi-decade low of 4.3%. The market now prices a 75% chance the BoE will raise rates at its May meeting (from 50% beforehand). The GBP has since fallen back, but it remains slightly up on the day against the USD.

The NZD is around half a cent lower than this time yesterday with most of that move happening in the immediate aftermath of the RBNZ MPS. The RBNZ lowered its CPI forecasts and now expects to reach its 2% target in 2020, almost two years later than it expected in November. But the RBNZ kept its OCR track and mild tightening bias unchanged; it projects the first full rate rise in early 2020. The 2 year swap rate fell 1bp yesterday in response to the RBNZ, and the market reduced the probability of a February 2019 rate rise to around 75%. We suspect some offshore investors may have been looking for more hawkish commentary from the RBNZ.

The AUD also weakened around 0.5% overnight. Having been over 0.81 barely a week ago, the AUD is now below 0.78 and down for the year. Overnight, RBA Governor Lowe said that while he expected the next move in rates to be up, the RBA had time and didn't need to move in "*lock-step*" with other central banks. While he noted that "*the RBA Board does not see a strong case for a near-term adjustment in monetary policy*", he expected inflation to move gradually towards target and the unemployment rate to keep falling. The Statement of Monetary Policy is released today, but given Lowe said that the RBA's forecasts for the economy hadn't changed much since November, it doesn't seem likely to contain many surprises. The NZD/AUD has reversed its losses in the immediate aftermath of the RBNZ Statement and is back to 0.9265.

Nick.Smyth@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Truckometer Heavy MoM	Jan		-4.2	10:00
AU	RBA Quarterly Statement on Monetary Policy				13:30
CH	PPI YoY	Jan	4.3	4.9	14:30
CH	CPI YoY	Jan	1.5	1.8	14:30
UK	Industrial Production YoY	Dec	0.3	2.5	22:30
CA	Unemployment Rate	Jan	5.8	5.7	02:30

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	0.7218	-0.3	0.7177	0.7235	CHF	0.9362	-0.8			S&P 500	2,645	-1.5	15.3	Oil (Brent)	64.72	-1.2
AUD	0.7790	-0.4	0.7782	0.7843	SEK	8.116	+0.4			Dow	24,255	-2.5	20.9	Oil (WTI)	60.88	-1.3
EUR	1.2248	-0.1	1.2212	1.2295	NOK	7.927	+0.2			Nasdaq	6,869	-2.5	20.9	Gold	1321.4	+0.5
GBP	1.3906	+0.2	1.3846	1.4067	HKD	7.822	+0.1			Stoxx 50	3,377	-2.2	4.3	HRC steel	739.0	-0.7
JPY	108.69	-0.6	108.58	109.78	CNY	6.330	+0.8			FTSE	7,171	-1.5	-0.3	CRB	192.1	-0.1
CAD	1.2599	+0.2			SGD	1.331	+0.4			DAX	12,260	-2.6	6.2	Wheat Chic.	468.8	-0.9
NZD/AUD	0.9266	+0.1			IDR	13,605	+0.4			CAC 40	5,152	-1.6	8.1	Sugar	13.65	-2.4
NZD/EUR	0.5893	-0.1			THB	31.90	+0.8			Nikkei	21,891	+1.1	15.8	Cotton	77.94	+1.1
NZD/GBP	0.5191	-0.4			KRW	1,088	+0.1			Shanghai	3,262	-1.4	2.5	Coffee	122.8	-0.4
NZD/JPY	78.45	-0.9			TWD	29.35	+0.4			ASX 200	5,891	+0.2	4.0	WM powder	3280.0	-1.4
NZD/CAD	0.9094	-0.0			PHP	51.55	+0.8			NZX 50	8,177	-0.2	14.8	Australian Futures		
NZ TWI	74.63	-0.0												3 year bond	97.82	0.01
														10 year bond	97.13	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	1.80	2.35	2.83	USD	2.81	-0.03	NZGB 3 04/15/20	1.87	-0.02	1 year	1.97	-0.01			
AUD	1.50	1.77	2.02	3.01	AUD	2.89	0.05	NZGB 6 05/15/21	2.07	-0.02	2 year	2.17	-0.01			
NZD	1.75	1.90	2.17	3.29	NZD	2.96	0.00	NZGB 5 1/2 04/15/23	2.40	-0.01	5 year	2.74	0.00			
EUR	0.00	0.06	-0.12	1.12	GER	0.76	0.02	NZGB 2 3/4 04/15/25	2.74	0.00	7 year	3.01	0.00			
GBP	0.50	0.53	0.98	1.67	GBP	1.62	0.07	NZGB 4 1/2 04/15/27	2.96	0.00	10 year	3.29	0.00			
JPY	-0.04	-0.06	0.06	0.30	JPY	0.08	0.01	NZGB 3 1/2 04/14/33	3.33	0.01	15 year	3.53	0.00			
CAD	1.25	1.17	2.20	2.71	CAD	2.35	-0.02	NZGB 2 3/4 04/15/37	3.48	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 06:57

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

Currency Strategist
+61 2 9293 7109

Gavin Friend

Senior Markets Strategist
+44 20 7710 2155

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