

9 March 2018



Events Round-Up

NZ: Manufact. activity vol (q/q%), Q4: 1.0 vs. .0.4 prev.

AU: Trade balance (\$m), Jan: 1055 vs. 160 exp.

GE: Factory orders (m/m%), Jan: -3.9 vs. -1.8 prev.

CH: Trade balance (\$b), Feb: 33.7 vs. -5.7 exp.

EC: ECB deposit facility rate (%): -0.4 vs. -0.4 exp.

Good Morning

The USD has made some broadly-based gains as the US policy on steel and aluminium tariffs looks to be watered down, while EUR has underperformed following the ECB announcement and for the same reason global bond rates are lower.

The focus overnight was the ECB's policy update. As many expected, the ECB dropped its easing bias, removing the pledge to increase the asset purchase programme if economic conditions deteriorate, a further step in the progression of communication to end the programme entirely. However, in the press conference President Draghi, wary of adding further fuel to EUR, which had nudged up to a 3½-year high this week on a TWI basis, talked a dovish game. He downplayed the removal of the easing bias, indicated that inflation remained subdued and that policy would be "reactive not proactive", and warned that trade protectionism presents a new downside risk. Our view on the policy outlook remains unchanged, seeing the ECB making further communication tweaks in the months ahead, culminating in ending QE sometime between September and December, before moving to rate rises sometime in 2019.

EUR initially rose after the announcement on the removal of the easing bias but then fell away sharply as Draghi spoke. From a high of 1.2446, EUR has fallen down to 1.2315. This has seen NZD/EUR trade (roughly) a 0.5840-0.59 range.

A risk-on tone developed early yesterday as Trump's spokeswoman hinted of potential tariff carve-outs for some countries. It looks like US steel and aluminium tariff policy will temporarily exempt Canada and Mexico, with extensions possible depending on NAFTA negotiations. This announcement boosted CAD and supported equity markets through the Asian session. The S&P500 opened stronger but is now flat for the session.

The key on tariffs will be the extent of retaliation from the EU and China. Yesterday, China's foreign minister vowed

a "justified and necessary response" to any efforts to incite a trade war, the government's strongest response to the proposed tariffs. Yesterday we reported on some suspected bad maths by Trump as he tweeted that he was looking for a \$1 billion reduction in the US trade deficit with China. That suspicion has proved correct, as the WSJ reports that the White House is asking Beijing for a plan to cut the annual deficit with China by \$100 billion, so Trump missed off a couple of zeros. In 2017 the US trade deficit with China was \$375 billion. Yesterday, China's trade balance reported for February was way above market expectations, but the figures appear to be distorted by the timing of Chinese New Year.

The USD has managed to show some broadly based support in overnight trading. This sees the NZD nudge down to around 0.7260, down 30pips or so from the 0.7290 level near the NZ close. There hasn't been a great deal of movement in the crosses, with NZD/AUD largely tracking sideways, NZD/GBP slightly higher and NZD/JPY slightly lower. The recovery in CAD sees NZD/CAD near 0.94.

Draghi's dovish overtone saw European rates pulled down. Germany's 10-year rate got to as high as 0.70% as the easing bias was dropped, but has since fallen away by 7bps to 0.63%. This has helped dragged down US Treasury yields, with the 10-year rate down to 2.85% around 3bps lower versus the NZ close.

Yesterday the DMO announced the syndication of a new NZ 2029 government bond, targeting \$1.5-2.0b of issuance. 10-year swap-bond spreads were already trading at the lower end of their annual range in anticipation of the new issue, limiting any adverse reaction to the NZ 10-year government rate. Indeed, the move looked to be well anticipated, with the 10-year government rate falling by 2bps to 2.99% against a flat swaps curve and some mild upward pressure to Australian rates.

There is quite a bit on the economic calendar in the day ahead. Looking at the key events, the BoJ is expected to keep policy settings unchanged. After the recent grilling in front of Parliament, it's hard to see much fresh coming out of Governor Kuroda's news conference. Eyes then focus on tonight's US payrolls report, with upside risk to the consensus 205k growth in employment, while the unemployment rate is expected to reach a fresh low of 4.0%. Average hourly earnings inflation should dip from their weather-boosted prior reading.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card spending retail (m/m%)	Feb	0.1	1.4	10:45
CH	PPI (y/y%)	Feb	3.8	4.3	14:30
CH	CPI (y/y%)	Feb	2.5	1.5	14:30
JN	BoJ 10-Yr Yield Target	Mar	0.0	0.0	
GE	Industrial production (y/y%)	Jan	6	6.5	20:00
UK	Trade balance (£m)	Jan	-3300	-4896	22:30
UK	Industrial production (m/m%)	Jan	1.5	-1.3	22:30
UK	Construction output (m/m%)	Jan	-0.5	1.6	22:30
US	Chge in nonfarm payrolls (k)	Feb	205	200	02:30
US	Unemployment rate (%)	Feb	4.0	4.1	02:30
US	Avg hourly earnings (m/m%)	Feb	0.2	0.3	02:30
US	Avg hourly earnings (y/y%)	Feb	2.8	2.9	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	0.7257	-0.4	0.7245	0.7298	CHF	0.9500	+0.7	S&P 500	2,726	-0.0	15.4	Oil (Brent)	63.90	-0.7
AUD	0.7781	-0.6	0.7775	0.7836	SEK	8.267	+0.5	Dow	24,778	-0.1	18.8	Oil (WTI)	60.56	-1.0
EUR	1.2314	-0.8	1.2305	1.2446	NOK	7.836	+0.4	Nasdaq	7,420	+0.3	27.1	Gold	1321.5	-0.5
GBP	1.3810	-0.6	1.3809	1.3910	HKD	7.842	+0.1	Stoxx 50	3,413	+1.1	0.7	HRC steel	820.0	+0.1
JPY	106.13	+0.1	105.89	106.26	CNY	6.342	+0.3	FTSE	7,203	+0.6	-1.8	CRB	193.7	-0.4
CAD	1.2957	+0.3			SGD	1.318	+0.3	DAX	12,356	+0.9	3.2	Wheat Chic.	494.0	-0.6
NZD/AUD	0.9327	+0.2			IDR	13,816	+0.4	CAC 40	5,254	+0.7	5.9	Sugar	12.82	+0.3
NZD/EUR	0.5893	+0.4			THB	31.37	+0.2	Nikkei	21,368	+0.5	10.6	Cotton	84.29	+1.8
NZD/GBP	0.5255	+0.3			KRW	1,070	+0.1	Shanghai	3,288	+0.5	2.2	Coffee	120.0	-0.6
NZD/JPY	77.02	-0.3			TWD	29.27	+0.1	ASX 200	5,943	+0.7	3.5	W/M powder	3150.0	-0.3
NZD/CAD	0.9403	-0.0			PHP	52.14	+0.3	NZX 50	8,359	+0.9	17.1	Australian Futures		
NZ TWI	74.88	-0.1										3 year bond	97.9	0.02
												10 year bond	97.23	0.04
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	2.06	2.54	2.87	USD	2.85	-0.03	NZGB 3 04/15/20	1.91	-0.01	1 year	2.02	-0.00	
AUD	1.50	1.88	2.02	2.95	AUD	2.80	0.01	NZGB 6 05/15/21	2.09	-0.01	2 year	2.21	-0.00	
NZD	1.75	1.90	2.21	3.25	NZD	2.99	-0.02	NZGB 5 1/2 04/15/23	2.43	-0.01	5 year	2.73	0.00	
EUR	0.00	0.06	-0.13	1.06	GER	0.63	-0.03	NZGB 2 3/4 04/15/25	2.76	-0.02	7 year	2.99	0.00	
GBP	0.50	0.60	1.03	1.58	GBP	1.47	-0.02	NZGB 4 1/2 04/15/27	2.99	-0.02	10 year	3.25	0.00	
JPY	-0.05	-0.05	0.05	0.27	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.37	-0.01	15 year	3.49	0.00	
CAD	1.25	1.17	2.16	2.61	CAD	2.22	-0.02	NZGB 2 3/4 04/15/37	3.51	-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 06:51

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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