

9 May 2018



Events Round-Up

AU: Retail sales (m/m%), Mar: 0% vs. 0.2% exp.
 NZ: 2yr inflation expectations, Q2: 2.01% vs. 2.11% prev.
 CH: Trade balance, Apr: \$28.8b vs. \$27.8b exp.
 GE: Industrial production (y/y%), Mar: 3.2% vs. 3% exp.

Good Morning

President Trump announced a short while ago that he was pulling out of the Iran nuclear deal, although oil prices are unchanged on the day, implying the market had largely factored this in. The USD has extended its recent move higher, with Fed Chair Powell reinforcing the message that more rate hikes are coming. The NZD has made a new low for the year, below 0.70, as commodity currencies have underperformed overnight.

A short while ago, President Trump announced that he was pulling out of the Iran nuclear deal and would re-impose sanctions on Iran. Oil prices had fallen sharply earlier in the day, but recovered after Trump's announcement and are close to unchanged on the day – implying the market had largely priced-in the decision (although the dust has still to settle). The international response to the US decision is still uncertain, with the EU's foreign affairs representative Federica Mogherini saying the EU was "*determined to preserve*" the nuclear deal while the Russian deputy foreign minister said Macron's earlier proposal for an enhanced nuclear deal with Iran "*deserved serious consideration*." There has been little reaction in other markets (equities, bonds, currencies) to the announcement.

The USD has extended its recent gains overnight, with the Bloomberg DXY moving up to a new high for 2018. The USD seemed to get a boost from Fed Chair Powell's comments that reinforced the Fed's message that more rate rises are coming (which shouldn't really surprise anyone). Powell said the market was "*reasonably well aligned*" with the Fed's tightening plans while noting that "*overall U.S. domestic financial conditions have gotten looser*" despite the Fed's six rate hikes. The breach of key technical levels – such as the EUR breaking below 1.19, to a new low for the year – and further USD short covering were probably as important as Powell's comments in driving the USD higher on the day. The extreme bearishness towards the USD that was evident a few

months back (as reflected in record short USD positioning at the time) has started to fade.

The NZD and AUD fell in tandem with the EUR after Powell's comments. The NZD broke below 0.70 to a low of 0.6954, before bouncing back slightly to 0.6965. Commodity currencies have generally underperformed overnight, reflecting the earlier weakness in oil and commodities. The NZD/AUD has moved a little higher, to 0.9350, but remains locked within a tight range that it has been in the last fortnight.

There was little immediate reaction in US Treasury yields to Powell's comments, although they have ticked up over the course of the day. The 10 year Treasury is up 2bps to 2.97%, while the 10 year breakeven rate is steady at 2.17%. The market prices a 25% chance of a third hike over the remainder of 2018 (the current Fed projections show most members expect two or three hikes this year). US core CPI released on Friday (the annual rate is expected to nudge up to 2.2%) will be a key release for interest rate markets.

Amid a renewed focus on emerging markets in recent weeks, Powell downplayed the spillovers from Fed monetary policy to emerging markets in recent years, saying there was "*good reason to think the normalisation of monetary policies in advanced economies should continue to prove manageable*." Nevertheless, the renewed strength in the USD saw the Argentinean peso fall to a new low overnight, before recovering after President Macri announced the country had sought a (reportedly \$30b) flexible credit line from the IMF. The credit line is seen as a precautionary tool to reassure markets and hopefully to 'short circuit' the rapid depreciation in the peso. There hasn't been any contagion to other risk asset markets, like equities, as yet, with Argentina and Turkey seen to have idiosyncratic issues to deal with (rather than been representative of the broader EM complex).

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card Spending Total MoM	Apr		0.7	10:45
US	PPI Ex Food and Energy YoY	Apr	2.4	2.7	00:30
US	Fed's Bostic Speaks on Economic Outlook and Monetary Policy				05:15

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)				Other FX			Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6968	-0.7	0.6954	0.7031	CHF	1.0020	-0.1		S&P 500	2,657	-0.6	10.7	Oil (Brent)	75.43	-1.0
AUD	0.7451	-0.9	0.7434	0.7519	SEK	8.825	-0.1		Dow	24,264	-0.4	15.5	Oil (WTI)	69.52	-1.8
EUR	1.1860	-0.5	1.1838	1.1933	NOK	8.142	+0.9		Nasdaq	7,243	-0.3	18.7	Gold	1316.2	+0.1
GBP	1.3539	-0.1	1.3485	1.3593	HKD	7.849	-0.0		Stoxx 50	3,558	-0.2	-2.3	HRC steel	863.0	+0.0
JPY	109.01	-0.1	108.83	109.35	CNY	6.371	+0.1		FTSE	7,566	-0.0	3.7	CRB	202.2	-0.7
CAD	1.2952	+0.6			SGD	1.340	+0.4		DAX	12,912	-0.3	1.7	Wheat Chic.	531.5	+0.5
NZD/AUD	0.9352	+0.2			IDR	14,052	+0.4		CAC 40	5,522	-0.1	2.6	Sugar	11.56	+2.3
NZD/EUR	0.5875	-0.1			THB	31.94	+0.3		Nikkei	22,509	+0.2	13.4	Cotton	85.38	-0.6
NZD/GBP	0.5147	-0.5			KRW	1,077	-0.1		Shanghai	3,161	+0.8	2.6	Coffee	119.6	-0.9
NZD/JPY	75.96	-0.8			TWD	29.78	+0.0		ASX 200	6,092	+0.1	4.3	WMI powder	3270.0	-0.5
NZD/CAD	0.9025	-0.1			PHP	51.90	-0.0		NZX 50	8,595	+0.1	16.0	Australian Futures		
NZ TWI	73.29	-0.4											3 year bond	97.79	-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	Net Day			
USD	1.75	2.37	2.77	3.00	USD	2.96	0.02	NZGB 6 05/15/21	2.04	-0.01	1 year	2.13	0.00
AUD	1.50	1.98	2.13	2.93	AUD	2.74	-0.02	NZGB 5 1/2 04/15/23	2.32	-0.02	2 year	2.28	0.01
NZD	1.75	2.05	2.28	3.19	NZD	2.76	-0.02	NZGB 2 3/4 04/15/25	2.57	-0.02	5 year	2.73	-0.00
EUR	0.00	0.06	-0.14	1.00	GER	0.56	0.03	NZGB 4 1/2 04/15/27	2.76	-0.02	7 year	2.96	-0.01
GBP	0.50	0.67	1.04	1.59	GBP	1.44	0.04	NZGB 3 04/20/29	2.93	-0.02	10 year	3.19	-0.01
JPY	-0.07	-0.03	0.05	0.27	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.13	-0.02	15 year	3.45	-0.01
CAD	1.25	1.17	2.29	2.70	CAD	2.35	0.02	NZGB 2 3/4 04/15/37	3.31	-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 06:58

Source: Bloomberg

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