

10 April 2017

Events Round-Up

GE: Industrial production (y/y%), Feb: 2.5 vs. 0.5 exp.
GE: Trade balance (€bn), Feb: 19.9 vs. 17.7 exp.
UK: Industrial production (m/m%), Feb: -0.7 vs. 0.2 exp.
CH: Foreign Reserves (USDbn), Mar: 3009 vs. 3011 exp.
US: Chg in nonfarm payrolls ('000), Mar: 98 vs. 180 exp.
US: Unemployment rate (%), Mar: 4.5 vs. 4.7 exp.
US: Average hrly earnings (m/m%), Mar: 0.2 vs. 0.2 exp.
US: Average hourly earnings (y/y%), Mar: 2.7 vs. 2.7 exp.

Good Morning

The US attack on a Syrian airfield and the US employment report were the key drivers of markets on Friday. The latter proved to be the more enduring theme, resulting in a stronger USD and higher UST yields. The much-anticipated Trump-Xi summit proved to be an anti-climax, with a long-lasting friendship apparently established, but nothing meaningful on policy came out of the talks. China's foreign ministry said the countries had agreed to "properly" deal with issues of trade friction.

A risk-off tone developed early Friday afternoon as reports came through that the US had launched a missile attack on a specific Syrian airbase that had been recently used to launch a chemical attack. The key impact on markets was strength in the safe-haven yen, euro and swiss franc currencies, US equity futures falling 0.7%, US 10-year yields falling 5bps to 2.29% and oil prices up 2%.

Interestingly, NZD/USD only fell by about 10pips, an indication of the already-short positioning that exists for the NZD. The latest CFTC report showed the largest number of net short NZD positions since mid-January, which itself was the largest short positioning since mid-2015. This reduces the hurdle rate for a near-term bounce in the NZD on any positive surprise.

By the time the US employment report was about to be released, much of that risk-off move had been reversed, as the bombing was seen to be a "one-off" event and not necessarily the beginning of a sustained attack by the US on Syria. A key outcome has been deterioration in US-Russia relations and the focus over coming weeks will be how this plays out. The Trump administration has warned that it is ready to take further military action if Syria's government employs chemical weapons again. Watch this space.

The US employment report had something for everyone, with much weaker employment growth but this didn't prevent the unemployment rate falling to a lower-than-expected 4.5%, its lowest level since 2007. The only key indicator that didn't surprise was wage inflation, with the 2.7% annual increase in line with its average over the past 12 months. Despite no pick-up in wage inflation, the market took the view that the labour market was still tightening and this was enough to keep the Fed on track to tighten policy in line with its previous guidance.

The USD major currency index ended the session up 0.3%, while US Treasury rates were higher across the curve, with the 2-year rate up 5bps to 1.29% and the 10-year rate up 4bps to 2.38%. The 10-year rate fell as low as 2.27% as the soft payrolls figures hit the headlines, but as the market put weight on the low unemployment rate, this saw a sharp reversal in yields. The 10-year rate still hasn't closed below 2.30% since the end of November, reinforcing the view that this is a level of strong technical support.

Despite the upward pressure from US rates, Germany and UK 10-year rates were both down for the day, in the order of 2-4bps. German rates and the euro both ignored surprising strength in German industrial production for February. EUR/USD ended the day down 0.5% to 1.0590, its lowest close in four weeks. UK rates and GBP were both pulled down by surprising weakness in industrial production, which fell for the second consecutive month despite the weak currency. GBP ended down 0.8% to 1.2370, helping NZD/GBP regain the 0.56 handle.

NZD closed the week around 0.6940, not far off the low for the session, with the US employment report the key driver. While the NZD barely reacted during the risk-off episode, before the reports of the attack the currency also barely reacted to the strength in NZX dairy futures. Whole milk powder futures made further gains, taking the cumulative rise for the week above 8%. Adding to the upside to pricing was the very wet weather conditions during the week, which is expected to have an adverse impact on dairy production.

With iron ore prices heading south, down over 6% for the day, sentiment for the AUD has deteriorated and it closed the week at 0.75. NZD/AUD rose as high as 0.9290 during the session but closed the week showing a modest gain to around 0.9250. We think that the cross remains oversold and look for further gains in the weeks ahead.

The local rates market saw another day of fresh lows being reached on the back of the fall in global rates, amidst the reports of the attack on Syria. The 2-year swap rate closed down 1.5bps at 2.25% while the 10-year rate fell 4bps to 3.30%. With the US 10-year rate closing 7bps up since the NZ close, expect to see a reversal of those moves on the open. The economic calendar is sparse over the next 12 hours. The market will be focused on geo-political news, while Yellen will be talking soon after our next daily report is published tomorrow morning.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
AU Home loans (m/m%)	Feb	0.1	0.5	13:30
US Fed's Yellen Speaks at University of Michigan				08:00

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	0.6937	-0.4	0.6933	0.6994	CHF	1.0091	+0.4	S&P 500	2,356	-0.1	15.0		Oil (Brent)	55.24	+0.6
AUD	0.7500	-0.6	0.7496	0.7544	SEK	9.074	+0.5	Dow	20,656	-0.0	17.5		Oil (WTI)	52.24	+1.0
EUR	1.0591	-0.5	1.0581	1.0666	NOK	8.659	+0.4	Nasdaq	5,878	-0.0	21.2		Gold	1254.3	+0.3
GBP	1.2371	-0.8	1.2371	1.2478	HKD	7.769	-0.0	Stoxx 50	3,496	+0.2	20.0		HRC steel	655.0	+0.0
JPY	111.09	+0.3	110.17	111.37	CNY	6.901	+0.0	FTSE	7,349	+0.6	18.5		CRB	187.1	+0.2
CAD	1.3398	-0.1			SGD	1.405	+0.2	DAX	12,225	-0.0	27.0		Wheat Chic.	436.3	+0.1
NZD/AUD	0.9249	+0.2			IDR	13,321	-0.1	CAC 40	5,135	-0.1	19.3		Sugar	16.77	+1.9
NZD/EUR	0.6550	-0.0			THB	34.61	+0.1	Nikkei	18,665	+0.4	18.0		Cotton	73.46	-1.4
NZD/GBP	0.5607	+0.3			KRW	1,134	+0.1	Shanghai	3,287	+0.2	10.1		Coffee	140.1	+1.7
NZD/JPY	77.06	-0.2			TWD	30.60	+0.2	ASX 200	5,862	+0.1	18.7		WM powder	3080.0	+2.7
NZ TWI	76.08	-0.2			PHP	49.89	-0.5	NZX 50	7,244	-0.6	7.6		Australian Futures		
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		
USD	1.00	1.16	1.62	2.36	USD	2.38	0.04	NZGB 3 04/15/20	2.245	-0.03		1 year	2.058	-0.01	
AUD	1.50	1.79	1.87	2.89	AUD	2.55	-0.03	NZGB 6 05/15/21	2.385	-0.03		2 year	2.255	-0.01	
NZD	1.75	1.99	2.26	3.31	NZD	3.06	-0.03	NZGB 5 1/2 04/15/23	2.700	-0.02		5 year	2.798	-0.03	
EUR	0.00	0.06	-0.15	0.74	GER	0.23	-0.04	NZGB 2 3/4 04/15/25	2.965	-0.03		7 year	3.055	-0.04	
GBP	0.25	0.34	0.57	1.12	GBP	1.08	-0.02	NZGB 4 1/2 04/15/27	3.060	-0.03		10 year	3.305	-0.04	
JPY	-0.04	0.03	0.05	0.24	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.405	-0.03		15 year	3.595	-0.04	
CAD	0.50	1.17	1.13	1.89	CAD	1.60	0.05								

* 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: NY close Sat morn.

Source: Bloomberg

Contact Details

New Zealand	Kymerly Martin	Senior Market Strategist	+ (64 4) 924 0419
	Jason Wong	Currency Strategist	+ (64 4) 924 7652
Australia	Ray Attrill	Global Co-Head of FX Strategy	+ (61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+ (61 2) 9237 7109
London	Nick Parsons	Global Co-Head of FX Strategy	+ (44 0) 20 7710 2993
	Gavin Friend	Markets Strategist	+ (44 0) 20 7710 0898

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