

10 April 2018



## Events Round-Up

Nothing of note

## Good Morning

Market sentiment began the week on a positive note, seeing a rebound in US equities, a nudge higher in UST yields and the NZD outperform, while the USD is weaker across the board.

A risk-on tone developed in early Asia trading following US Treasury Mnuchin's weekend comments that tried to unwind his view on Friday of potential for a US-China "trade war". Reports also emerged that North Korea told the US that Kim Jong Un is prepared to discuss the denuclearisation of the Korean Peninsula, clearing the way for a summit meeting between the two countries. In news overnight, President Trump said he expects to meet with Kim Jong Un in May or early June, and expressed hope they'd reach a deal on "de-nuking" the Korean peninsula.

S&P futures rose during the Asian session and the S&P500 opened stronger and has trended higher throughout the session, now up 1½% and on its way to unwinding the 2% fall on Friday. The NZD has trended higher alongside that move and is currently up 0.7% to 0.7320, the best of the majors. The NZD is higher on all the crosses, but to a more modest degree. NZD/AUD is back to 0.95, after earlier reaching a fresh 9-month high of 0.9519. We expect resistance to gradually build for this cross at these levels and over recent years the air above 0.96 has been thin. CFTC data show building net NZD long positions and while net AUD positions have turned short. The NZD is now vulnerable to the downside on any fresh negative news.

In late Asia trading yesterday, Bloomberg reported that China is evaluating the potential impact of a gradual CNY depreciation, partly as a tool in trade negotiations and partly to counter the impact of any trade sanctions that knock China exports. Market commentary in response to this news is that it would be a risky strategy from China. The market spasms that followed the devaluation of CNY in 2015 is still fresh in the mind alongside the massive capital outflows that followed that eventually led to increased capital controls. A more subtle move than manipulating the currency lower would be for China to loosen capital controls and let local residents gradually

take money out. Traders pushed CNH forward points lower across the curve on Monday, a sign that investors are still trimming expectations of yuan depreciation during the next 12 months. Today President Xi Jinping is due to give a keynote speech in Asia at an economic forum and the market will be taking a greater interest to see what he says about the US-China trade dispute.

In other news, the ECB annual report gave EUR a kick up as the underlying message was positive. The strong economic expansion is expected to continue in 2018 and, despite uncertainties, policy makers are confident that inflation will converge toward medium-term goals. This seemed to alleviate concerns that trade wars will disrupt ECB plans to pare back stimulus in due course.

The US Congressional Budget Office released a fresh set of forecasts that account for the latest tax cuts and spending plans. The budget deficit is projected to be \$804b in FY 2018 (prev. 563b) while the deficit will breach the \$1000b mark in FY 2020, two years earlier than previously projected. There was no market reaction to the news, with the rising US twin deficits a well acknowledged problem and this has been factor behind USD weakness since late last year when Trump's tax cuts looked likely to pass.

There isn't much to say about the rates market, with the US 10-year Treasury rate rising to as high as 2.81% and is currently up just 1bp for the day at 2.79%, with improved risk appetite imparting a modest upside bias to yields. The NZ swaps curve was little changed yesterday, while bond yields were slightly lower following Friday night's US price action.

On the economic calendar this morning the NZ QSBO should continue to show tight capacity pressures and therefore a bias towards greater inflationary pressure ahead. Global releases are second-tier and should cause little market reaction.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

		Period	Cons.	Prev.	NZT
NZ	QSBO business confid. (net%)	Q1		-12	10:00
CH	President Xi delivers keynote speech				13:30
AU	NAB business conditions	Mar		21	13:30
US	NFIB small business opt.	Mar	107.0	107.6	22:00
US	PPI final demand (m/m%)	Mar	0.1	0.2	00:30
US	PPI ex food and energy (m/m%)	Mar	0.2	0.2	00:30

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	0.7317	+0.7	0.7279	0.7324	CHF	0.9564	-0.3		S&P 500	2,640	+1.4	12.1	Oil (Brent)	68.61	+2.2
AUD	0.7703	+0.2	0.7652	0.7711	SEK	8.355	-0.4		Dow	24,275	+1.4	17.5	Oil (WTI)	63.38	+2.1
EUR	1.2321	+0.3	1.2261	1.2330	NOK	7.780	-0.6		Nasdaq	7,034	+1.7	19.7	Gold	1336.0	+0.3
GBP	1.4135	+0.3	1.4079	1.4164	HKD	7.849	+0.0		Stoxx 50	3,415	+0.2	-2.3	HRC steel	856.0	+0.8
JPY	106.78	-0.1	106.75	107.20	CNY	6.307	+0.1		FTSE	7,195	+0.2	-2.1	CRB	195.0	+1.4
CAD	1.2705	-0.6			SGD	1.311	-0.3		DAX	12,262	+0.2	0.3	Wheat Chic.	506.0	+3.6
NZD/AUD	0.9499	+0.2			IDR	13,761	-0.1		CAC 40	5,263	+0.7	2.5	Sugar	12.36	+0.2
NZD/EUR	0.5939	+0.3			THB	31.26	-0.1		Nikkei	21,678	+0.5	15.3	Cotton	82.91	+0.4
NZD/GBP	0.5177	+0.3			KRW	1,067	-0.2		Shanghai	3,138	+0.2	-4.0	Coffee	118.7	+1.0
NZD/JPY	78.13	+0.6			TWD	29.23	-0.2		ASX 200	5,809	+0.3	-1.8	WMI powder	3200.0	+0.0
NZD/CAD	0.9296	+0.1			PHP	52.06	-0.0		NZX 50	8,454	+0.7	16.8	<b>Australian Futures</b>		
NZ TWI	75.43	+0.6											3 year bond	97.845	0.00
													10 year bond	97.33	-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	Last	Last				
USD	1.75	2.34	2.59	2.81	USD	2.79	0.01	NZGB 6 05/15/21	2.07	-0.01	1 year	2.10	0.00		
AUD	1.50	2.05	2.08	2.85	AUD	2.67	0.02	NZGB 5 1/2 04/15/23	2.34	-0.02	2 year	2.25	0.00		
NZD	1.75	1.98	2.25	3.14	NZD	2.78	-0.02	NZGB 2 3/4 04/15/25	2.60	-0.02	5 year	2.69	-0.00		
EUR	0.00	0.06	-0.15	0.96	GER	0.50	0.01	NZGB 4 1/2 04/15/27	2.78	-0.02	7 year	2.91	-0.00		
GBP	0.50	0.76	1.14	1.55	GBP	1.41	0.01	NZGB 3 04/20/29	2.98	-0.02	10 year	3.14	-0.00		
JPY	-0.06	-0.04	0.04	0.25	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.17	-0.02	15 year	3.39	0.00		
CAD	1.25	1.17	2.17	2.54	CAD	2.15	0.01	NZGB 2 3/4 04/15/37	3.39	-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 06:56

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

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

**National Australia Bank Limited is not a registered bank in New Zealand.**