

RESEARCH

Markets Today

10 January 2018



Events Round-Up

AU: Building Approvals (y/y%), Nov: 17.1% vs. 4.6% exp.

GE: Industrial Production (y/y%), Nov: 5.6% vs. 3.9% exp.

EC: Unemployment Rate, Nov: 8.7% vs. 8.7% exp.

US: NFIB Small Business Optimism, Dec: 104.9 vs. 107.5 exp.

US: JOLTS Job Openings, Nov: 5879 vs. 6025 exp.

Good Morning

The US 10 year Treasury yield broke above 2.50% overnight, its highest level since March, after the BoJ made small changes to their QE purchase amounts. Risk sentiment remains positive with US stocks rising again and US high yield spreads hitting their tightest since 2007. The NZD was relatively strong again overnight.

The BoJ caught markets by surprise by reducing their purchases of long end JGBs at their QE operation overnight. The BoJ offered to buy ¥190bn 10-25yr JGBs and ¥90bn 25yr+ JGBs, a reduction of ¥10bn to each bucket. The move was interpreted by some as a 'tapering' of their QE programme which might foreshadow an earlier exit to their Yield Curve Control policy. JGB yields moved a few basis points higher at the long end, although the moves were more pronounced in other global bond markets, with the 10 year UST finally breaking above 2.50% and moving to its highest level since last March. It now sits around 2.54%. The 10 year bund rose 4bps to 0.47%. The yen strengthened on the back of the BoJ's announcement.

The suppression of JGB yields by the BoJ – they target a 10 year yield around 0bps – has led to large outflows from Japanese investors into foreign bond markets in recent years. The risk is then that a reversal in the BoJ's policy and a rise in JGB yields could see these bond flows reverse home to Japan, putting upward pressure on global bond yields and the yen. We wouldn't necessarily draw the conclusion that the BoJ is any closer to nearing an end to its Yield Curve Control policy and would note that the BoJ's primary objective now is managing the 10 year yield around 0% rather than targeting a fixed monthly amount of bonds to purchase. But the change, specifically

targeted at the long-end, does probably signal that the BoJ would like the yield curve a little steeper.

US stocks pushed ahead to fresh record highs ahead of the start of US earnings season, continuing their strong run since the start of the year. Other risk markets are also very strong. US high-yield spreads compressed to their tightest levels since 2007. US investment-grade and USD-denominated EM spreads were already at pre-GFC tight.

The USD strengthened across the board overnight, with the exception of the JPY. Yet more positive economic data out of the Eurozone wasn't sufficient to stop the EUR falling against the USD.

The NZD fell slightly against the USD but rose on most of the crosses. NZD/AUD pushed up close to 0.92 despite stronger than expected Australian building approvals data yesterday. The recent rise in risk appetite and global growth expectations alongside (short) market positioning are all supporting the NZD. NZD/EUR rose above 0.60 to its highest level since October.

The CNY weakened overnight after reports that the PBOC had made a technical change to how the CNY fix should be calculated by banks. According to these reports, banks who submit CNY FX fixings will no longer need to apply a 'counter-cyclical factor' that was used to smooth daily volatility in the currency. NAB strategists do not think the change necessarily signals that the PBoC wants a weaker CNY, although it might suggest China is more comfortable with letting market forces dictate price action.

China CPI and PPI is released today while another Fed member – this time, Chicago Fed President Evans – will be speaking on the US economy. Media are also reporting that the White House is close to announcing the appointment of the new Vice-Chair of the Fed.

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Coming Up

	Period	Cons.	Prev.	NZT
CH PPI YoY	Dec	4.8	5.8	14:30
CH CPI YoY	Dec	1.9	1.7	14:30
UK Industrial Production YoY	Nov	1.8	3.6	22:30
US Fed's Evans Discusses Economy and Policy Outlook				03:00
NZ QV House Prices YoY	Dec	6.4		05:00

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	0.7171	-0.1	0.7163	0.7197	CHF	0.9830	+0.6		S&P 500	2,755	+0.3	21.4	Oil (Brent)	68.63	+1.2
AUD	0.7818	-0.3	0.7808	0.7863	SEK	8.242	+0.5		Dow	25,404	+0.5	27.7	Oil (WTI)	62.77	+1.7
EUR	1.1924	-0.4	1.1916	1.1972	NOK	8.120	+0.5		Nasdaq	7,174	+0.2	29.7	Gold	1312.0	-0.6
GBP	1.3532	-0.3	1.3506	1.3579	HKD	7.820	-0.0		Stoxx 50	3,623	+0.2	9.5	HRC steel	663.0	+0.2
JPY	112.63	-0.4	112.37	112.97	CNY	6.530	+0.5		FTSE	7,731	+0.4	6.8	CRB	193.5	+0.3
CAD	1.2460	+0.3			SGD	1.336	+0.3		DAX	13,386	+0.1	15.8	Wheat Chic.	444.8	+1.0
NZD/AUD	0.9172	+0.2			IDR	13,438	+0.1		CAC 40	5,524	+0.3	13.0	Sugar	14.67	-0.7
NZD/EUR	0.6014	+0.3			THB	32.27	+0.2		Nikkei	23,850	+0.6	23.6	Cotton	78.27	+0.2
NZD/GBP	0.5299	+0.2			KRW	1,067	+0.1		Shanghai	3,414	+0.1	8.0	Coffee	124.8	-0.3
NZD/JPY	80.77	-0.5			TWD	29.55	+0.1		ASX 200	6,136	+0.1	6.5	WMI powder	3015.0	+0.5
NZD/CAD	0.8935	+0.2			PHP	50.32	+0.3		NZX 50	8,433	+0.1	19.8	Australian Futures		
NZ TWI	75.00	+0.1											3 year bond	97.855	-0.02
													10 year bond	97.29	-0.06
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	1.50	1.71	2.16	2.53	USD	2.53	0.05	NZGB 3 04/15/20	1.96	0.01	1 year	2.00	-0.00		
AUD	1.50	1.81	2.01	2.86	AUD	2.67	0.02	NZGB 6 05/15/21	2.13	0.01	2 year	2.19	0.01		
NZD	1.75	1.87	2.19	3.16	NZD	2.82	0.01	NZGB 5 1/2 04/15/23	2.39	0.01	5 year	2.67	0.02		
EUR	0.00	0.06	-0.15	0.90	GER	0.47	0.04	NZGB 2 3/4 04/15/25	2.64	0.01	7 year	2.91	0.02		
GBP	0.50	0.52	0.82	1.35	GBP	1.28	0.05	NZGB 4 1/2 04/15/27	2.82	0.01	10 year	3.16	0.03		
JPY	-0.04	-0.02	0.05	0.29	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.13	0.01	15 year	3.40	0.03		
CAD	1.00	1.17	2.14	2.50	CAD	2.20	0.04	NZGB 2 3/4 04/15/37	3.28	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 06:43

Source: Bloomberg

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