

11 April 2017

Events Round-Up

AU: Home loans (m/m%), Feb: -0.5 vs. 0.0 exp.

Good Morning

With few data releases, geo-political risks have taken centre-stage which has seen a mild risk-off tone develop, with a higher VIX (trading within 13-14 after reaching as low as 11 last week) and lower global bond yields. US equities are up modestly, helped by a boost in energy stocks on higher oil prices.

Over the weekend a US aircraft barrier bound for Australia was diverted towards the Korean peninsula in the wake of the US attack on a Syrian airfield. While it appeared that North Korea was now in Trump's sights, Secretary of State Tillerson emphasised the US wasn't seeking "regime change" in North Korea. Tillerson will meet with his Russian counterpart in Moscow this week and is expected to discuss chemical weapons in Syria and Russia's involvement in supporting that country's tyrannical leader.

Korean assets including the won have been hit as the focus turned to North Korea, while oil prices have risen further following the increased tensions in the Middle East. Brent oil has now risen for six consecutive days towards the \$56 mark, but that move doesn't entirely reflect geo-political tensions. Supply has been curtailed by an outage at the largest oilfield in Libya while Russia has signalled a possible extension of the OPEC-led production cuts beyond June.

The other political event of note is regarding the French Presidential election, where first round voting begins in less than two weeks. Recent polls show a surge in a far-left candidate Melenchon, making the race now a four-way contest. His policies are not market-friendly as he would seek to overhaul the EU, while pulling France out of NATO and global trade pacts.

France-Germany 10-year bond spreads have widened to their highest level since February, while the risk-off move has seen German 10 year bunds fall 2bps to 0.20%, probing the lower end of their range since November.

Lower German rates have helped support a rally in US Treasuries, which sees rates down across the curve and reversing some of the increase seen in Friday's session. The 10-year rate is down to 2.355%, down about 3bps since the NZ close. Fed Chair Yellen is giving a speech at 8am this morning. The market will be watching for her

comments following the US employment report, which saw the unemployment rate fall to its lowest level in ten years, and comments on the likely shrinkage of the Fed's balance sheet from late this year. Dudley has suggested that he favours a "small pause" in the rate hike track, as the Fed begins to slow down its reinvestment of maturing Treasuries and mortgage-backed securities.

Continuing the theme of reversing Friday's moves, the USD is weaker across the board, with the major currency USD TWI down around 0.3%. Despite lower risk appetite, the NZD has found some support and is up on most of the crosses. It has been oversold in our view and is well-overdue for some outperformance, albeit gains have been modest. The 8% gain in NZX whole milk powder futures we saw last week has been sustained and they have nudged up further to USD 3105 per tonne. NZD is trading near the top of its range for the day and sits this morning around 0.6960.

The AUD has regained the 0.75 handle after probing significant technical support levels just under that mark, but its underperformance in the face of weakness in iron ore prices sees NZD/AUD up to 0.9280. We see further upside pressure in the cross as the NZD's underperformance unwinds. CFTC data show short NZD and long AUD positions so the hurdle rate for further gains is fairly low. We've been reluctant to highlight our end-June target of just under AUD 0.95, but with the downward trend reversing and momentum in the NZD's favour, we're a bit more comfortable in doing so now.

Despite French political risk, EUR has managed to eke out a gain against the USD since Friday's close and it sits slightly higher around 1.06, recovering after hitting 1.0570. GBP has outperformed, rising 0.4% to 1.2420. JPY sits around 111, with NZD/JPY hovering around 77.25.

The local rates market yesterday was all about playing catch-up to the higher UST yields post the US employment report, with gains of 3-6bps across the swap and government curves. The pressure will be a modest reversal of that move today based on current pricing, but Yellen's speech at 8am has the potential to change that. NZ card spending data and the NAB business survey usually have little market impact so the focus after Yellen's speech will be on UK CPI data tonight and a few other data releases as noted in the table.

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Coming Up

	Period	Cons.	Prev.	NZT
US Fed's Yellen Speaks at University of Michigan				08:00
NZ Card spending retail (m/m%)	Mar	0.5	-0.6	10:45
AU NAB business conditions	Mar		9	13:30
UK CPI (y/y%)	Mar	2.3	2.3	20:30
UK CPI core (y/y%)	Mar	1.9	2.0	20:30
EC Industrial production (m/m%)	Feb	0.1	0.9	21:00
GE ZEW survey expectations	Apr	14.5	12.8	21:00
US NFIB small business optimism	Mar	104.9	105.3	22:00
US JOLTS job openings	Feb		5626	02:00

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	0.6962	+0.3	0.6936	0.6965	CHF	1.0081	-0.1	S&P 500	2,359	+0.2	15.2	Oil (Brent)	55.91	+1.2
AUD	0.7503	+0.0	0.7476	0.7505	SEK	9.072	-0.0	Dow	20,705	+0.2	17.8	Oil (WTI)	53.02	+1.5
EUR	1.0600	+0.1	1.0570	1.0607	NOK	8.616	-0.5	Nasdaq	5,891	+0.2	21.5	Gold	1252.7	-0.1
GBP	1.2420	+0.4	1.2382	1.2429	HKD	7.770	+0.0	Stoxx 50	3,480	-0.4	19.5	HRC steel	655.0	+0.0
JPY	110.93	-0.1	110.81	111.46	CNY	6.903	+0.0	FTSE	7,349	-0.0	18.4	CRB	187.6	+0.3
CAD	1.3330	-0.5			SGD	1.405	-0.0	DAX	12,201	-0.2	26.8	Wheat Chic.	441.8	+1.1
NZD/AUD	0.9279	+0.2			IDR	13,286	-0.3	CAC 40	5,107	-0.2	18.7	Sugar	16.63	-0.8
NZD/EUR	0.6568	+0.4			THB	34.62	+0.0	Nikkei	18,798	+0.7	19.3	Cotton	75.15	+2.4
NZD/GBP	0.5605	+0.0			KRW	1,142	+0.7	Shanghai	3,269	-0.5	7.8	Coffee	139.9	-0.1
NZD/JPY	77.23	+0.2			TWD	30.64	+0.1	ASX 200	5,913	+0.9	19.9	WM powder	3105.0	+0.2
NZ TWI	76.25	+0.3			PHP	49.63	-0.5	NZX 50	7,239	-0.1	7.6	Australian Futures		
											3 year bond	98.19	0.01	
											10 year bond	97.42	0.03	
Interest Rates						NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last				Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.00	1.16	1.60	2.32	USD	2.36	-0.03	NZGB 3 04/15/20	2.280	0.04	1 year	2.068	+0.01	
AUD	1.50	1.78	1.82	2.85	AUD	2.57	0.02	NZGB 6 05/15/21	2.420	0.04	2 year	2.280	+0.03	
NZD	1.75	1.98	2.28	3.36	NZD	3.12	0.06	NZGB 5 1/2 04/15/23	2.735	0.03	5 year	2.840	+0.04	
EUR	0.00	0.06	-0.16	0.71	GER	0.21	-0.02	NZGB 2 3/4 04/15/25	3.015	0.05	7 year	3.105	+0.05	
GBP	0.25	0.34	0.56	1.11	GBP	1.08	0.00	NZGB 4 1/2 04/15/27	3.115	0.06	10 year	3.363	+0.06	
JPY	-0.04	0.03	0.04	0.24	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	3.460	0.05	15 year	3.653	+0.06	
CAD	0.50	1.17	1.13	1.88	CAD	1.59	-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 06:48

Source: Bloomberg

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