

11 January 2018



Events Round-Up

- CH: PPI (y/y%), Dec: 4.9% vs. 4.8% exp.
- CH: CPI (y/y%), Nov: 1.8% vs. 1.7% exp.
- UK: Industrial Production (y/y%), Nov: 2.5% vs. 1.8% exp.
- UK: Trade Balance, Nov: -£2804 vs. -£1500 exp.
- NZ: QV House Prices (y/y%), Dec: 6.6% vs. 6.4% prev.

Good Morning

US rates rose again overnight, after (unverified) reports that China was considering slowing or stopping US Treasury purchases. US stocks and the USD fell in response to the story, although the initial moves have mostly unwound. The NZD broke through 0.72 overnight but has since come back.

Bloomberg reported overnight that (unnamed) Chinese officials had made an internal recommendation to slow or reduce purchases of US Treasuries. The report referred to the outlook for US debt and trade tensions with the US as two factors that might make US Treasuries less attractive. The report didn't state whether the recommendation had been adopted. The market was already wary of a pick-up in bond supply this year as the US Treasury finances Trump's tax plan and the Fed reduces its purchases. The 10 year US Treasury yield, which yesterday broke above 2.50% for the first time since March, extended those rises overnight. The 10 year rate sits at 2.58%, up 3bps on the day and close to its highest level since 2014. In contrast, 2 year Treasury yields and foreign bond markets were mostly unchanged.

We would be cautious about reading too much into the report, although the market reaction does highlight the negative sentiment towards bonds at present. China holds \$1.2tn in US Treasuries and there are no bond markets that offer the same kind of depth or liquidity for a holder of that size. Second, until China moves to a fully floating FX regime, FX intervention to slow CNY appreciation will continue to generate demand for USD assets.

The S&P 500 initially fell 0.4% after Bloomberg's report, but it has since recovered those losses. Likewise, the

USD fell after its release, with the EUR rising almost a cent, above 1.20, before mostly retracing this move. The NZD spiked up to 0.7230 but it too has moved back down and now sits a little below 0.72.

The top performer in FX markets was again the Japanese yen, extending its gains from the previous night after the BoJ reduced its purchases of longer-dated JGBs. The yen is up almost a percent since this time yesterday. The 10 year JGB yield is 9bps, close to the top of the BoJ's implicit target range of -10 to +10bps. The BoJ has stepped in to buy unlimited amounts of JGBs when this level has been breached in the past. The market remains very sensitive to any signs that central banks are stepping back from QE and will be closely monitoring the BoJ's response if yields rise further. We would expect the yen to appreciate further if the BoJ does not step in above the 10bp level.

The GBP was one of the worst performers in FX overnight after a weaker than expected trade balance release. The market brushed off better than expected industrial and manufacturing production data and comments from BoE Deputy Governor Ben Broadbent that the BoE intends to keep tightening. The NZD/GBP reached its highest level since mid-October overnight and currently sits a bit above 0.53.

The focus in the day ahead will be the release of the minutes to the ECB's most recent meeting. The market will be attuned to any discussion on the outlook for QE beyond September. Ahead of the all-important US CPI release on Friday, we receive PPI tonight (although the correlation between core PPI and core CPI is not terribly great). Australia releases retail sales as well.

Nick.Smyth@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
US	Fed's Bullard Speaks on U.S. Economic Outlook in St. Louis				07:30
AU	Retail Sales MoM	Nov	0.4	0.5	13:30
EC	ECB account of the monetary policy meeting				01:30
US	PPI Ex Food and Energy YoY	Dec	2.5	2.4	02:30
US	Initial Jobless Claims	Jan	245	250	02:30

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	0.7188	+0.3	0.7159	0.7230	CHF	0.9785	-0.4		S&P 500	2,748	-0.1	21.1	Oil (Brent)	68.88	+0.1
AUD	0.7842	+0.2	0.7810	0.7867	SEK	8.186	-0.5		Dow	25,387	-0.0	27.9	Oil (WTI)	63.26	+0.5
EUR	1.1961	+0.2	1.1923	1.2018	NOK	8.058	-0.6		Nasdaq	7,143	-0.3	28.7	Gold	1317.6	+0.3
GBP	1.3517	-0.2	1.3482	1.3562	HKD	7.822	+0.0		Stoxx 50	3,610	-0.4	9.2	HRC steel	666.0	+0.5
JPY	111.48	-1.0	111.27	112.38	CNY	6.508	-0.3		FTSE	7,749	+0.2	6.5	CRB	194.5	+0.2
CAD	1.2486	+0.2			SGD	1.334	-0.1		DAX	13,281	-0.8	14.7	Wheat Chic.	446.0	+0.2
NZD/AUD	0.9166	+0.1			IDR	13,425	-0.1		CAC 40	5,505	-0.2	12.6	Sugar	14.64	-0.6
NZD/EUR	0.6010	+0.2			THB	32.11	-0.5		Nikkei	23,788	-0.3	22.8	Cotton	79.74	+1.8
NZD/GBP	0.5318	+0.5			KRW	1,072	+0.4		Shanghai	3,422	+0.2	9.1	Coffee	123.8	-1.2
NZD/JPY	80.13	-0.7			TWD	29.60	+0.2		ASX 200	6,097	-0.6	5.6	WMI powder	3025.0	+0.2
NZD/CAD	0.8975	+0.5			PHP	50.38	+0.1		NZX 50	8,365	-0.8	18.3	Australian Futures		
NZ TWI	74.99	+0.2											3 year bond	97.83	-0.02
													10 year bond	97.24	-0.05
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	1.70	2.17	2.56	USD	2.58	0.03	NZGB 3 04/15/20	1.98	0.02	1 year	2.00	0.00		
AUD	1.50	1.81	2.03	2.91	AUD	2.72	0.05	NZGB 6 05/15/21	2.15	0.02	2 year	2.20	0.01		
NZD	1.75	1.87	2.21	3.20	NZD	2.86	0.04	NZGB 5 1/2 04/15/23	2.42	0.02	5 year	2.71	0.03		
EUR	0.00	0.06	-0.15	0.92	GER	0.54	0.08	NZGB 2 3/4 04/15/25	2.68	0.03	7 year	2.95	0.04		
GBP	0.50	0.52	0.83	1.36	GBP	1.29	0.00	NZGB 4 1/2 04/15/27	2.86	0.04	10 year	3.20	0.05		
JPY	-0.04	-0.02	0.05	0.30	JPY	0.09	0.02	NZGB 3 1/2 04/14/33	3.18	0.05	15 year	3.44	0.04		
CAD	1.00	1.17	2.13	2.52	CAD	2.21	0.01	NZGB 2 3/4 04/15/37	3.33	0.06					

* 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 06:54

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

Currency Strategist
+61 2 9293 7109

Gavin Friend

Senior Markets Strategist
+44 20 7710 2155

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.