

12 April 2017

## Events Round-Up

NZ: Card spending retail (m/m%), Mar: -0.3 vs. 0.5  
AU: NAB business conditions, Mar: 14 vs. 9 prev.  
UK: CPI (y/y%), Mar: 2.3 vs. 2.3  
UK: CPI core (y/y%), Mar: 1.8 vs. 1.9 exp.  
EC: Industrial production (m/m%), Feb: -0.3 vs. 0.1 exp.  
GE: ZEW survey expectations, Apr: 19.5 vs. 14.8 exp.  
US: NFIB small business conf., Mar: 104.7 vs. 104.7 exp.  
US: JOLTS job openings, Feb: 5743 vs. 5626 prev.

## Good Morning

Geopolitical risks remain centre-stage, which sees softer equity markets, the VIX index up to its highest level since the US Presidential election in November, and the yen outperforming.

In the shortened Easter week, trading is fairly light. Economic data releases have had little impact on the market, which has put weight on geopolitical events following last week's US attack on a Syrian airfield and Trump upping his rhetoric on North Korea. After diverting warships towards the Korean peninsula over the weekend, Trump tweeted that "North Korea is looking for trouble," and that the US would "solve the problem" with or without China.

US Secretary of State Tillerson tried to shore up international support ahead of his trip to Moscow. He attended a G7 meeting which issued a statement urging Russian leaders to use their influence with the Syrian government to help resolve the country's crisis. Russia's response implied it had little common ground with the US view and was critical of US foreign policy.

The yen continues to benefit from the risk off tone, as the VIX index headed up through the 15 mark, well up on this year's average but still well below the historical average of 20, just to provide some context. USD/JPY found little support as it broke through 110 and it currently sits near its low for the session around 109.70, down over 1% for the day, and at its lowest level since mid-November. Yen strength sees NZD/JPY down 1.2% to around 76.3, its lowest level since mid-November.

GBP has also found some support, probably reflecting traders lightening up their short positions than a response to inflation data that came in largely as expected. GBP is up 0.6% to 1.2490.

Amidst the risk-off environment, the commodity

currencies have underperformed, but have largely managed to hold their ground against the USD. The NZD, AUD and CAD all trade within 0.1% of the previous close against the USD. NZD sits at 0.6955, close to the middle of the tight range it has traded over the past five days. Whole milk dairy prices continue to increase, but the market isn't respecting that dynamic. More heavy rain for the North Island this week adds to the risk of further reduction in dairy supply.

For the AUD, the market also ignored the strongest business conditions in Australia since the GFC, according to the NAB survey. AUD sits just under the 0.75 mark, with NZD/AUD flat at 0.9280.

The French Presidential election remains a focus for the euro area. While the EUR has managed to hold its ground against the USD at around the 1.06 mark, 1-month vol has spiked up, rising to 12.7 from the 8-9 area last week. France-Germany 10-year spreads continue to move higher, with the French 10-year bond up 3bps to 0.96% and the German 10-year flat at 0.20%.

US 10-year Treasury yields trended down throughout the Asian session and fell further on the US open. They currently trade at 2.30%, down 6bps for the day and over 3bps lower since the NZ close. They haven't closed below 2.30% since late-November, with this level representing an area of strong technical support. A close below this level would set up an easier path for even lower rates, with the next area of technical support well south. The 200-day moving average sits at 2.03%.

US short rates have also been affected by the increased geo-political risk. The market is taking a view of less chance of rate hikes this year if geopolitical risks linger in the background. The 2-year Treasury rate is down 4bps to 1.23%. According to the OIS curve only 31bps of rate hikes are priced in by year-end, down from 35bps a week ago. The market didn't react to Chair Yellen's remarks yesterday at a university event. She reiterated the Fed's house view of cautiously raising rates against a backdrop of full employment and rising inflationary pressure.

NZ's yield curve saw downward pressure yesterday, a reflection of global forces. Swap rates were down 2-5bps across the curve, with larger falls at the longer end of the curve. NZ-US bond spreads continue to trade in a tight range, so the NZ 10-year government rate of 3.06% is threatening to break the lower end of its trading range since November. It could easily push below the 3% mark over coming sessions.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Westpac consumer conf	Apr		99.7	12:30
CH CPI (y/y%)	Mar	1.0	0.8	13:30
CH PPI (y/y%)	Mar	7.5	7.8	13:30
UK ILO unemployment rate (%)	Feb	4.7	4.7	20:30
CA Bank of Canada Rate (%)	Apr	0.5	0.5	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	0.6954	-0.1	0.6930	0.6962	CHF	1.0075	-0.1	S&P 500	2,352	-0.2	15.2	Oil (Brent)	56.04	+0.1
AUD	0.7493	-0.1	0.7474	0.7515	SEK	9.052	-0.3	Dow	20,617	-0.2	17.4	Oil (WTI)	53.23	+0.2
EUR	1.0607	+0.1	1.0579	1.0630	NOK	8.598	-0.3	Nasdaq	5,857	-0.4	21.2	Gold	1272.3	+1.7
GBP	1.2491	+0.6	1.2404	1.2492	HKD	7.771	+0.0	Stoxx 50	3,470	-0.3	18.7	HRC steel	655.0	+0.0
JPY	109.66	-1.2	109.62	110.73	CNY	6.892	-0.2	FTSE	7,366	+0.2	18.8	CRB	188.0	+0.2
CAD	1.3335	+0.1			SGD	1.404	-0.1	DAX	12,139	-0.5	25.4	Wheat Chic.	447.5	+1.3
NZD/AUD	0.9281	+0.0			IDR	13,281	-0.0	CAC 40	5,102	-1.1	18.3	Sugar	16.72	+0.5
NZD/EUR	0.6556	-0.2			THB	34.54	-0.2	Nikkei	18,748	-0.3	17.7	Cotton	75.01	-0.2
NZD/GBP	0.5567	-0.7			KRW	1,146	+0.3	Shanghai	3,289	+0.6	8.8	Coffee	142.4	+0.2
NZD/JPY	76.26	-1.3			TWD	30.64	+0.0	ASX 200	5,929	+0.3	19.2	WM powder	3150.0	+0.0
NZ TWI	76.09	-0.2			PHP	49.59	-0.1	NZX 50	7,254	+0.2	7.9	<b>Australian Futures</b>		
												3 year bond	98.2	0.01
												10 year bond	97.46	0.04
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		
USD	1.00	1.16	1.56	2.26	USD	2.30	-0.07	NZGB 3 04/15/20	2.250	-0.03	1 year	2.058	-0.01	
AUD	1.50	1.77	1.84	2.82	AUD	2.53	-0.04	NZGB 6 05/15/21	2.385	-0.04	2 year	2.263	-0.02	
NZD	1.75	1.97	2.26	3.31	NZD	3.06	-0.06	NZGB 5 1/2 04/15/23	2.695	-0.04	5 year	2.808	-0.03	
EUR	0.00	0.06	-0.16	0.70	GER	0.20	-0.00	NZGB 2 3/4 04/15/25	2.970	-0.05	7 year	3.065	-0.04	
GBP	0.25	0.34	0.56	1.10	GBP	1.05	-0.02	NZGB 4 1/2 04/15/27	3.060	-0.06	10 year	3.313	-0.05	
JPY	-0.04	0.01	0.04	0.23	JPY	0.04	-0.02	NZGB 3 1/2 04/14/33	3.395	-0.06	15 year	3.603	-0.05	
CAD	0.50	1.17	1.10	1.83	CAD	1.55	-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: NZT 07:09

Source: Bloomberg

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