

12 February 2018



## Events Round-Up

AU: Home loans (m/m%), Dec: -2.3 vs. -1.0 exp.

CH: PPI (y/y%), Jan: 4.3 vs. 4.3 exp.

CH: CPI (y/y%), Jan: 1.5 vs. 1.5 exp.

UK: Industrial production (y/y%), Dec: 0.0 vs. 0.3 exp.

UK: Trade balance (£m), Dec: -4896 vs. -2400 exp.

CA: Unemployment rate, Jan: 5.9 vs. 5.8 exp.

## Good Morning

Friday was another choppy day for equity markets, although the S&P500 managed to end on a positive note. US Treasury yields nudged higher, while the NZD pushed higher.

Equity market volatility continued on Friday, with US stocks trading within a 4% range and ending on the positive side of the ledger (+1.5% for the S&P500) while the VIX index traded a 28-41 range and closed the week at 29. There wasn't much on the economic calendar, with the market wobbles reflecting a continuation of fear, or not, that the big bull run for equities has ended.

President Trump signed a two-year Budget agreement that boosts federal spending by \$300b, temporarily finances the government through to 23 March, and suspends the debt ceiling for a year. Economists said that it added about 0.4 percentage points to growth this year, at a time when the labour market is already tight, thereby adding to inflationary pressure and the case for the Fed to consider four rather than three rate hikes this year.

However, that wasn't how the market traded, with the probability of three rate hikes for the coming year reduced further and the 2-year Treasury rate down 3bps to 2.07% – the short end of the curve being sensitive to the turbulence being seen in the equity market and some pondering about how the Fed might react to the increased market volatility. There was a notable steepening of the curve, with the 10-year rate ending the day at 2.85%, up 3bps, with one eye on the increased fiscal deficit and extra government borrowing that will ensue. Still, there was evidence that equity market volatility was a factor in the session, as the 10-year rate traded a wide 2.78-2.86% range, with yields highly correlated to the intra-day S&P500 moves.

In the currency market, the USD held on to its gains seen earlier in the week and was relatively flat for the session. Currency market volatility remained modest, considering the turbulence seen in equity markets. GBP was the worst performer as Brexit headlines were in focus and weaker than expected UK industrial production and trade data didn't help. The EU's chief negotiator Barnier warned that a Brexit transition deal was "not a given" if disagreements with the UK persisted. He also pointed out that come Brexit day the UK will leave behind some 750 international agreements the EU has struck on behalf of its member states on the date of the withdrawal. Our view remains that the UK government will deliver on a transition deal out of self-preservation, for if a transition deal is not agreed to, the government would likely fall. GBP fell by 0.6% to 1.3825, while NZD/GBP rose by 1.1% to 0.5245.

The NZD ended the week on a positive note, being the strongest of the majors for the session, highlighting that this isn't an ordinary bout of risk appetite reduction we're seeing. For the day, the NZD was up 0.5% to 0.7255, reducing its loss for the week to just 0.6%. Our risk appetite index has fallen below the neutral 50% mark for the first time in eighteen months, after spending much of that time well above that mark. Over the last two weeks the index has plunged from a lofty 85% to 48% and over that time only 1 cent has been shaved off the NZD, compared to our model which suggests that the NZD "deserved" to fall by 3½ cents. This highlights how the market sees the current risk-off episode as largely an issue confined to the equity market, perhaps a reflection that share prices were just simply over-cooked, and has little to do with changed expectations about the global growth outlook.

The RBA said in its Statement on Monetary Policy that the economy was way-off full employment and inflation returning to the mid-point of the target, signalling policy will stay on hold. This was a familiar refrain and there was little reaction for the AUD which, like the NZD, ended the week on a positive note. NZD/AUD met some resistance just above 0.93 and closed the week around 0.9285.

Canada saw a record drop in part-time employment that coincided with a 20% increase in the Ontario minimum wage. It'll be worth monitoring that province closely, as NZ's minimum wage is set to go up by more than amount, albeit spread over four years. The soft employment, higher wages combo only saw some passing volatility in CAD, while another 3% sliced off oil prices didn't help

sentiment. NZD/CAD ended the day up 0.4% to 0.9130.

The economic calendar is light over the next 24 hours, but that won't necessarily prevent any further market volatility, something we'll be keeping a close eye on. In the coming week the key focus will be US CPI data on Wednesday night NZ time. Another positive surprise of 0.3% m/m for the month for the core measure could send bond yields higher and equity markets (and the NZD) lower.

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### Coming Up

	Period	Cons.	Prev.	NZT
NZ Card spending retail (m/m%)	Jan	0.5	0.5	10:45

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	0.7255	+0.5	0.7203	0.7259	CHF	0.9386	+0.3		S&P 500	2,620	+1.5	13.1	Oil (Brent)	62.79	-3.1
AUD	0.7813	+0.4	0.7769	0.7830	SEK	8.080	-0.5		Dow	24,191	+1.4	19.3	Oil (WTI)	59.20	-3.2
EUR	1.2252	+0.0	1.2206	1.2287	NOK	7.962	+0.4		Nasdaq	6,874	+1.4	19.9	Gold	1313.1	-0.3
GBP	1.3827	-0.6	1.3765	1.3987	HKD	7.818	-0.0		Stoxx 50	3,326	-1.5	1.7	HRC steel	742.0	+0.4
JPY	108.80	+0.1	108.16	109.31	CNY	6.303	-0.4		FTSE	7,092	-1.1	-2.3	CRB	188.5	-1.7
CAD	1.2581	-0.2			SGD	1.328	-0.3		DAX	12,107	-1.2	3.8	Wheat Chic.	461.0	-1.8
NZD/AUD	0.9286	+0.1			IDR	13,628	+0.2		CAC 40	5,079	-1.4	5.2	Sugar	13.67	+0.7
NZD/EUR	0.5921	+0.4			THB	31.70	-0.5		Nikkei	21,383	-2.3	10.3	Cotton	76.68	+0.1
NZD/GBP	0.5247	+1.1			KRW	1,092	+0.4		Shanghai	3,130	-4.1	-2.1	Coffee	123.8	-0.9
NZD/JPY	78.93	+0.6			TWD	29.31	-0.1		ASX 200	5,838	-0.9	2.1	WM powder	3215.0	-3.3
NZD/CAD	0.9128	+0.4			PHP	51.50	-0.1		NZX 50	8,092	-1.0	13.9	<b>Australian Futures</b>		
NZ TWI	74.77	+0.4											3 year bond	97.875	0.05
													10 year bond	97.15	0.04
<b>Interest Rates</b>															
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	1.82	2.35	2.86	USD	2.85	0.03	NZGB 3 04/15/20	1.85	-0.02	1 year	1.97	0.00		
AUD	1.50	1.76	1.99	3.00	AUD	2.86	-0.03	NZGB 6 05/15/21	2.04	-0.02	2 year	2.15	-0.02		
NZD	1.75	1.91	2.15	3.28	NZD	2.95	-0.01	NZGB 5 1/2 04/15/23	2.38	-0.02	5 year	2.73	-0.02		
EUR	0.00	0.06	-0.13	1.12	GER	0.75	-0.02	NZGB 2 3/4 04/15/25	2.72	-0.02	7 year	3.00	-0.02		
GBP	0.50	0.54	0.98	1.62	GBP	1.57	-0.05	NZGB 4 1/2 04/15/27	2.95	-0.01	10 year	3.28	-0.01		
JPY	-0.04	-0.07	0.05	0.30	JPY	0.07	-0.02	NZGB 3 1/2 04/14/33	3.32	-0.01	15 year	3.52	-0.01		
CAD	1.25	1.17	2.16	2.72	CAD	2.35	-0.02	NZGB 2 3/4 04/15/37	3.47	-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: NY close Sat morn.

Source: Bloomberg

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