

12 March 2018



Events Round-Up

NZ: Credit Card Spending (m/m%), Feb: -0.3% vs. 0.1% exp.

CH: PPI (y/y%), Feb: 3.7% vs. 3.8% exp.

CH: CPI (y/y%), Feb: 2.9% vs. 2.5% exp.

JN: BoJ 10-yr Yield Target, Mar: 0% vs. 0% exp.

US: Non-farm payrolls, Feb: 313k vs. 205k exp.

US: Unemployment rate, Feb: 4.1% vs. 4.0% exp.

US: Average hourly earnings (y/y%), Feb: 2.6% vs. 2.8% exp.

Good Morning

US stocks surged higher on Friday as the non-farm payrolls report showed a large gain in employment but some moderation in US wage growth. The US dollar was mixed while UST yields rose modestly. The NZD rose slightly.

Non-farm payrolls showed the largest monthly gain in employment since mid-2016, 313k, much higher than expected. In contrast, US wage growth was lower than expected, with average hourly earnings falling to 2.6% YoY. The unemployment rate was unchanged at 4.1% due to a large rise in the participation rate, while previous months' employment gains were revised up.

The combination of strong job gains (reflecting a strong economy) and some moderation in wage growth (assuaging recent inflation fears) caused US equities to move sharply higher. The S&P500 was up 1.7% on the day and 3.5% on the week. The Nasdaq moved to a new record high while the VIX fell below 15, its lowest level in a month.

Earlier Friday, risk assets had been boosted a little by the surprise announcement that President Trump planned to meet North Korean leader Kim Jong Un (although tensions on the Korean peninsula have not been a major driver of markets for some time).

US Treasury yields moved modestly higher in response to the payrolls report, with the headline jobs number overshadowing the weakness in wages. The 10 year Treasury yield increased 3bps to 2.89%, although it

remains stuck within a 2.80% - 2.95% range for now. The market continues to price around 3 hikes in the US this year, in line with the median projection from the Fed's 'dot' plot.

After Chair Powell's recent testimony, market participants have speculated that the Fed 'dots' could shift up, to indicate a fourth hike for 2018. With payrolls not proving decisive either way, attention now turns to US CPI release on Wednesday morning, the last major piece of US economic data due before the Fed's March meeting.

In FX markets, buoyant risk appetite and a surge in oil prices boosted the commodity currencies (NOK, AUD and CAD). Oil prices rose around 3% on Friday, reversing the falls over the previous two days. The AUD may get a further boost this week after President Trump tweeted that Australia would receive an exemption from his proposed steel and aluminium tariffs.

The US dollar was mixed after payrolls on Friday. The EUR ended broadly unchanged around 1.23. Meanwhile, the JPY fell, in line with 'risk-on' moves in global markets. The BoJ kept their 10-year yield target at 0%, as expected.

The NZD underperformed the rest of the commodity bloc, but was still up on the day against the USD. The NZD rose from 0.7260 before payrolls to around 0.7285, supported by the increase in risk sentiment. This week, the highlight for the local market is NZ GDP which is released on Thursday. We are looking for a 0.7% increase for Q4, which would boost the annual rate to 3.1%. The NZ current account deficit is released on Wednesday but should only have a fleeting market impact.

There is no market-moving data in the session ahead, and the focus will probably be on continued headlines around the proposed US import tariffs, as other countries seek exemptions. Besides US CPI on Wednesday morning, US retail sales are released the following day and ECB President Draghi speaks on Wednesday night.

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Coming Up

	Period	Cons.	Prev.	NZT
JN	Machine Tool Orders YoY	Feb P	48.8	19:00

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	0.7280	+0.2	0.7258	0.7298	CHF	0.9513	+0.0		S&P 500	2,787	+1.7	17.4	Oil (Brent)	65.49	+3.0
AUD	0.7844	+0.7	0.7781	0.7854	SEK	8.244	-0.3		Dow	25,336	+1.8	21.2	Oil (WTI)	62.04	+3.2
EUR	1.2307	-0.0	1.2273	1.2334	NOK	7.779	-0.8		Nasdaq	7,561	+1.8	29.0	Gold	1324.0	+0.2
GBP	1.3850	+0.3	1.3794	1.3889	HKD	7.836	-0.1		Stoxx 50	3,421	+0.2	0.1	HRC steel	820.0	+0.0
JPY	106.82	+0.6	106.57	107.05	CNY	6.334	-0.1		FTSE	7,225	+0.3	-1.6	CRB	195.1	+0.8
CAD	1.2812	-0.7			SGD	1.317	-0.1		DAX	12,347	-0.1	3.2	Wheat Chic.	505.5	-1.9
NZD/AUD	0.9281	-0.5			IDR	13,797	-0.1		CAC 40	5,274	+0.7	5.6	Sugar	12.84	-0.4
NZD/EUR	0.5915	+0.4			THB	31.33	-0.1		Nikkei	21,469	+0.5	9.5	Cotton	84.52	-0.7
NZD/GBP	0.5256	+0.1			KRW	1,070	-0.0		Shanghai	3,307	+0.6	2.9	Coffee	120.2	-0.1
NZD/JPY	77.76	+0.8			TWD	29.30	+0.1		ASX 200	5,963	+0.3	3.2	WMI powder	3130.0	-0.9
NZD/CAD	0.9327	-0.4			PHP	52.06	-0.1		NZX 50	8,390	+0.4	16.9	Australian Futures		
NZ TWI	75.04	+0.0											3 year bond	97.865	-0.04
													10 year bond	97.21	-0.02

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	2.09	2.56	2.92	USD	2.89	0.04	NZGB 3 04/15/20	1.91	0.00	1 year	2.03	0.00
AUD	1.50	1.91	2.07	2.97	AUD	2.78	-0.02	NZGB 6 05/15/21	2.09	0.00	2 year	2.21	0.00
NZD	1.75	1.90	2.21	3.23	NZD	2.94	0.00	NZGB 5 1/2 04/15/23	2.41	0.00	5 year	2.73	0.00
EUR	0.00	0.06	-0.13	1.07	GER	0.65	0.02	NZGB 2 3/4 04/15/25	2.72	0.00	7 year	2.98	0.00
GBP	0.50	0.60	1.05	1.61	GBP	1.49	0.02	NZGB 4 1/2 04/15/27	2.94	0.00	10 year	3.23	0.00
JPY	-0.06	-0.06	0.05	0.26	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.30	0.00	15 year	3.47	0.00
CAD	1.25	1.17	2.20	2.66	CAD	2.27	0.04	NZGB 2 3/4 04/15/37	3.44	0.00			

* 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 New York Close

Source: Bloomberg

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