

13 April 2018



Events Round-Up

NZ: Card spending retail (m/m%), Mar: 1.0 vs. 0.5 exp.

AU: Home loans (m/m%), Feb: -0.2 vs. -0.4 exp.

EC: Industrial production (m/m%), Feb: -0.8 vs. 0.1 exp.

Good Morning

Market movements have been modest although there is still a notable grind up in the NZD, supported by a better risk backdrop.

Tensions around Syria were diffused a little after President Trump tweeted that “Never said when an attack on Syria would take place. Could be very soon or not soon at all!”. US defence secretary Mattis said that there were non-military options available to the international community, while Russian leaders urged calm and reined in their own war rhetoric. These developments have supported risk appetite a little and, additionally, speaking to lawmakers, Trump sounded more optimistic on the US-China trade situation, buoyed by President Xi’s speech earlier this week. He said that the two countries ultimately may end up levying no new tariffs on each other.

US equities are up around 1% as the market focuses on the earnings season ahead and this was kicked off by a good result from Blackrock. The VIX index has retreated to the lowest level seen this week, below 19. The better risk environment has imparted an upward bias to UST yields, with the 10-year rate on an upward trend to 2.83% overnight, up 5bps from the NZ close.

Currency movements have been modest, with the notable mover being a 1% fall in SEK, after underlying CPI inflation in Sweden came in below market expectations, with the ex-energy measure coming in 0.3% below the Riksbank’s forecast. The lack of inflation in Sweden highlights the futility of central bank policy of negative rates, quantitative easing, and driving one’s currency lower when ultimately the weak inflation backdrop reflects a common global force.

Stronger risk appetite sees the NZD continuing to grind higher, up to 0.7380 and reaching a high overnight of 0.7389. The key resistance level is 0.7440, a level it has

failed to break on three occasions dating back to September. The NZD has outperformed other commodity currencies, with NZD/AUD sustaining the rise above the 0.95 mark we saw through Asia trading and NZD/CAD retesting the 0.93 handle. It seems that the government’s new policy to restrict NZ’s oil exploration industry and threaten thousands of high-paying jobs hasn’t had a negative impact on sentiment. NZ electronic card transactions spending data were stronger than expected but that release is typically ignored by the market.

The NZD has made its best gains against the safe-haven JPY and EUR, up through 79 and approaching 0.60 respectively. Euro area industrial production unexpectedly declined for the third consecutive month, continuing the run of softer activity data from the region. ECB minutes of its last meeting showed that possible US import tariffs and unforeseen consequences of UK’s Brexit were threats to the economic outlook, which Draghi alluded to in his speech yesterday.

In the local rates market, we’ve been keeping a close eye on short term rates. NZ’s 3-month bank bill rate has blasted up through the 2% mark over the past couple of days, with wider money market spreads in the US and Australia finally catching up with the local market. There are a lot of technical factors behind this move. The over-funded domestic market saw the 90-day rate fall 10bps towards the end of last year. Rates have since risen by nearly 20bps as local banks’ liquidity positions have now normalised alongside the upward pressure from global money markets. This dynamic now sees the 2-year swap rate up to 2.29%, up 4bps for the day, and at its highest level since July. Upside pressure could remain over the short term. The 10-year swap rate fell by 1bp to 3.14%

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Mar		53.4	10:30
AU	RBA Financial Stability Review				13:30
CH	Trade balance (\$b)	Mar	27.5	33.7	
CH	Exports (y/y%)	Mar	11.8	44.5	
CH	Imports (y/y%)	Mar	12.0	6.3	
US	U. of Mich. cons. sentiment	Apr	100.5	101.4	02:00

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	0.7382	+0.3	0.7358	0.7389	CHF	0.9618	+0.4		S&P 500	2,666	+1.0	13.7	Oil (Brent)	71.90	-0.1
AUD	0.7758	+0.0	0.7738	0.7765	SEK	8.416	+1.0		Dow	24,446	+1.3	18.7	Oil (WTI)	66.90	+0.4
EUR	1.2331	-0.3	1.2300	1.2374	NOK	7.783	-0.0		Nasdaq	7,125	+1.0	22.1	Gold	1337.6	-1.3
GBP	1.4232	+0.4	1.4146	1.4247	HKD	7.850	+0.0		Stoxx 50	3,444	+0.7	-0.7	HRC steel	856.0	-0.7
JPY	107.19	+0.4	106.82	107.43	CNY	6.292	+0.4		FTSE	7,258	+0.0	-1.2	CRB	199.1	+0.2
CAD	1.2589	+0.1			SGD	1.312	+0.3		DAX	12,415	+1.0	2.1	Wheat Chic.	496.5	-1.2
NZD/AUD	0.9515	+0.3			IDR	13,778	+0.1		CAC 40	5,309	+0.0	4.1	Sugar	12.05	-0.1
NZD/EUR	0.5987	+0.6			THB	31.21	+0.3		Nikkei	21,660	-0.1	17.5	Cotton	83.74	+0.0
NZD/GBP	0.5187	-0.1			KRW	1,070	+0.3		Shanghai	3,180	-0.9	-2.9	Coffee	120.1	-0.3
NZD/JPY	79.13	+0.7			TWD	29.29	+0.3		ASX 200	5,816	-0.2	-1.3	WMI powder	3220.0	+0.2
NZD/CAD	0.9293	+0.4			PHP	52.06	+0.2		NZX 50	8,404	-0.6	16.2	Australian Futures		
NZ TWI	75.98	+0.4											3 year bond	97.795	-0.02
													10 year bond	97.27	-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						
USD	1.75	2.34	2.65	2.86	USD	2.82	0.04	NZGB 6 05/15/21	2.08	0.00	1 year	2.15	0.04		
AUD	1.50	2.06	2.12	2.91	AUD	2.66	-0.02	NZGB 5 1/2 04/15/23	2.35	0.00	2 year	2.29	0.04		
NZD	1.75	2.03	2.29	3.14	NZD	2.79	-0.00	NZGB 2 3/4 04/15/25	2.61	0.00	5 year	2.70	-0.00		
EUR	0.00	0.06	-0.14	0.96	GER	0.52	0.02	NZGB 4 1/2 04/15/27	2.79	-0.00	7 year	2.91	-0.01		
GBP	0.50	0.77	1.16	1.59	GBP	1.46	0.07	NZGB 3 04/20/29	2.98	-0.02	10 year	3.14	-0.01		
JPY	-0.05	-0.04	0.04	0.25	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.16	-0.02	15 year	3.40	-0.01		
CAD	1.25	1.17	2.24	2.64	CAD	2.26	0.06	NZGB 2 3/4 04/15/37	3.37	-0.02					

* 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 06:38

Source: Bloomberg

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