

13 February 2018



## Events Round-Up

NZ: Card spending retail (m/m%), Jan: 1.4 vs. 0.5 exp.

## Good Morning

It's been a slow start to the week, with little news to digest. A positive mood hangs over equity markets and the US 10-year Treasury rate tested a fresh high, while currency movements have been modest.

European equities rose by over 1%, playing catch-up to the late-Friday rally on Wall Street. US equities are higher again, with the S&P500 up around 1½% and now up 5% from the intraday low on Friday. A positive close would see the first back-to-back gain in more than two weeks, perhaps a sign that the meltdown episode has now passed.

The US 10-year rate broke through 2.89% last night, but then fell to as low as 2.83%. It currently sits at 2.86%, up 1bp for the day. President Trump released his 2019 Budget, but it is customary for Congress to ignore the plan from the White House. The market still seems nervous about the size of projected deficits, following the tax reform policy and rise in spending that was required to get bi-partisan support for a one-year suspension of the debt ceiling. At the end of last week Moody's Investor Services said that the US Aaa credit rating is likely to face downward pressure in coming years due to the country's swelling debt load. Easier fiscal policy could well sway the Fed into upping its rate projections this year from three to four rate hikes at its March update. In the meantime, all eyes will be on Wednesday night's US CPI report.

There has been little action in currency markets. The NZD peaked around the local close at 0.7277 yesterday and has back nudged down to 0.7240, not far where it opened after the weekend. Retail electronic card transactions data were very strong, but it is not a release that the market typically reacts to. Retail spending continues to be supported by robust job growth and higher real wages.

The NZD is down on nearly all the crosses, unwinding its outperformance on Friday. Overnight, NZD/AUD has tracked down to just below 0.9240. The CAD has underperformed alongside the NZD, despite oil prices rebounding by 1% so NZD/CAD is flat at 0.9130.

EUR, GBP and JPY changes versus the USD are all currently within 0.1% of the weekend close. The only newsflow that might have a modicum of interest is more hawkish comments by BoE MPC members. The BoE's Vlieghe endorsed last week's view of the MPC in commenting that a bit more than three 25bp policy rate increases were probably needed over the next three years. Under current market pricing of three hikes over three years the economy would still have excess demand and wouldn't get inflation back to target. Fellow policy-maker McCafferty seemed to endorse that view as well, suggesting in a radio interview that it is likely rates would need to go up earlier. Market reaction to these comments hasn't been significant. A heavy schedule of Brexit-related speeches planned over the next two weeks looks to be of more interest as the UK government tries to scramble together a transitional deal over the next month or so.

The local rates market showed a bias for higher rates yesterday, reflecting global pressures, with 10-year government and swap rates up 4bps to 2.99% and 3.31% respectively. The market ignored the dovish view proffered by RBNZ Assistant Governor McDermott in a local newspaper. While we weren't privy to the full interview, the line published was that the RBNZ could easily cut rates if the economy ended up weaker than expected, with McDermott coming across highly defensive against some calls that the Bank's forecasts were too optimistic. The market's view is that there is a high hurdle rate for any further rate cuts this cycle and didn't react to the published article. The 2-year swap rate ended the day 1bp higher at 2.16%.

It should be another quiet local trading session today. Tonight sees the release of UK CPI data, which will get more attention following the BoE's more hawkish policy guidance last week. The Fed's Mester, a voter this year with a hawkish bent, offers her view on the monetary policy and economic outlook.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	NAB Business conditions	Jan		13	13:30
UK	CPI (y/y%)	Jan	2.9	3	22:30
UK	CPI core (y/y%)	Jan	2.6	2.5	22:30
US	NFIB small business opt.	Jan	105.7	104.9	00:00
US	Fed's Mester to discuss mon. pol. and econ. outlook				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	0.7239	-0.2	0.7232	0.7277	CHF	0.9389	+0.0				Oil (Brent)	63.21	+0.7
AUD	0.7838	+0.3	0.7810	0.7846	SEK	8.081	+0.0				Oil (WTI)	59.84	+1.1
EUR	1.2273	+0.2	1.2235	1.2297	NOK	7.921	-0.5				Gold	1324.7	+0.9
GBP	1.3815	-0.1	1.3796	1.3876	HKD	7.821	+0.0				HRC steel	744.0	+0.3
JPY	108.73	-0.1	108.44	108.81	CNY	6.328	+0.4				CRB	189.6	+0.6
CAD	1.2619	+0.3			SGD	1.325	-0.2				Wheat Chic.	472.5	+2.5
NZD/AUD	0.9236	-0.5			IDR	13,639	+0.1				Sugar	13.61	-0.4
NZD/EUR	0.5898	-0.4			THB	31.67	-0.1				Cotton	76.87	+0.2
NZD/GBP	0.5240	-0.1			KRW	1,085	-0.7				Coffee	123.3	-0.4
NZD/JPY	78.71	-0.3			TWD	29.32	+0.0				WM powder	3215.0	+0.0
NZD/CAD	0.9135	+0.0			PHP	51.93	+0.8				<b>Australian Futures</b>		
NZ TWI	74.68	-0.2									3 year bond	97.855	-0.02
											10 year bond	97.11	-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	1.82	2.36	2.87	USD	2.86	0.01	NZGB 3 04/15/20	1.87	0.03	1 year	1.98	0.01
AUD	1.50	1.77	2.02	3.05	AUD	2.91	0.05	NZGB 6 05/15/21	2.07	0.02	2 year	2.16	0.01
NZD	1.75	1.91	2.16	3.31	NZD	2.99	0.04	NZGB 5 1/2 04/15/23	2.41	0.03	5 year	2.74	0.02
EUR	0.00	0.06	-0.13	1.16	GER	0.76	0.01	NZGB 2 3/4 04/15/25	2.75	0.03	7 year	3.03	0.03
GBP	0.50	0.54	1.00	1.68	GBP	1.60	0.03	NZGB 4 1/2 04/15/27	2.99	0.04	10 year	3.31	0.04
JPY	-0.04	-0.07	0.05	0.30	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.36	0.04	15 year	3.56	0.04
CAD	1.25	1.17	2.15	2.71	CAD	2.35	-0.01	NZGB 2 3/4 04/15/37	3.51	0.04			

\* 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 06:50

Source: Bloomberg

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