

14 February 2018



Events Round-Up

AU: NAB Business conditions, Jan: 19 vs. 13 prev.

UK: CPI (y/y%), Jan: 3.0 vs. 2.9 exp.

UK: CPI core (y/y%), Jan: 2.7 vs. 2.6 exp.

US: NFIB small business opt., Jan: 106.9 vs. 105.3 exp.

Good Morning

USD weakness has returned, showing a broadly based reduction, as investors seek out safe havens like JPY and CHF. Equity markets are in the red while US 10-year Treasuries are relatively steady.

The S&P500 is down slightly, following on from solid gains over the previous two sessions. However, there has been a distinct lack of volatility, as the index has traded a narrow range. There hasn't been much news overnight and the market looks to be in a holding pattern ahead of tonight's important US CPI release.

There's a bit more to say about currency markets, with renewed USD weakness taking hold after last week's recovery. The two safe-haven currencies, JPY and CHF have outperformed. USD/JPY began to lurch down after the NZ close and is down 1% to 107.60, meeting some support at 107.40, with technicians keeping a watchful eye on last year's low of 107.32. The move might have been exaggerated by stop-loss orders, as short-Yen remains a predominant position amongst speculative traders. Seasonal factors might also be at work, with US bond redemptions peaking in February, spurring yen demand for repatriation purposes ahead of the March fiscal year-end.

A weaker USD is consistent with the story of the rising US twin fiscal and current account deficits we have previously talked about. The last thing the US economy needs right now is fiscal expansion but that is precisely what the government is delivering, sending the fiscal deficit on a path towards 5-6% of GDP, which will likely add to the pressure on the US current account deficit.

The softer USD sees EUR up 0.5% to 1.2360 and GBP up 0.3% to 1.3880. A stronger GBP was supported by UK CPI figures coming in a tenth ahead of expectations, adding to upward pressure for UK rates, albeit we only saw a modest 2bps move across the curve. Another rate hike by May is priced at just over a 70% chance.

Commodity currencies have underperformed with AUD and CAD down slightly overnight and barely higher from

this time yesterday. Of the commodity bloc, NZD has performed better. NZD/USD has nudged up to 0.7280 after spiking to 0.7315 last night, while NZD/AUD has nudged up to 0.9275. The strong yen sees NZD/JPY down 0.6% to 78.4.

US 10-year yields have traded in a 2.82-2.86% range, fairly tight in the context of recent market volatility. There has been some curve flattening, with the 2-year rate up 2bps to 2.10% and the 10-year rate down nearly 2bps to 2.84%. The Fed's Mester, a voter this year and known hawk, said that the recent stock market turmoil hadn't affected her economic outlook. She guided towards a path of three more rate hikes this year and next year, a similar pace to last year. In talking about the risks to the US economy she noted that "I think that there's more salient upside risks to the forecast than we've seen in quite a while".

New Fed Chairman Powell played with a straight bat at his swearing-in ceremony indicating that the Fed had made "great progress" in moving towards its dual mandate and that the Fed will "remain alert to any developing risks to financial stability".

In an uneventful session, NZ rates were down 1-2bps across the curve.

There are a number of top-tier economic releases ahead, including GDP for Japan, Germany and the Euro-area. The key release though is the US core CPI. The market expects a 0.2% m/m increase for January, lowering the annual change slightly to 1.7% y/y. Given the market's growing anxiety about the prospect for higher US wage and price inflation, the release will probably generate a significant market reaction if it is different from the consensus. 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	Food prices (m/m%)	Jan		-0.8	10:45
AU	Westpac consumer confid.	Feb		105.1	12:30
JN	GDP (q/q%)	Q4	0.2	0.6	12:50
NZ	2yr inflation expectations	Q1		2.02	15:00
GE	GDP (q/q%)	Q4	0.6	0.8	20:00
EC	Industrial production (y/y%)	Dec	4.2	3.2	23:00
EC	GDP (q/q%)	Q4	0.6	0.6	23:00
US	CPI ex food, energy (m/m%)	Jan	0.2	0.3	02:30
US	CPI ex food, energy (y/y%)	Jan	1.7	1.8	02:30
US	Retail sales ex auto, gas (m/m%)	Jan	0.3	0.4	02:30

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)				Other FX			Major Indices				Price				
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day
NZD	0.7281	+0.2	0.7261	0.7315	CHF	0.9342	-0.5		S&P 500	2,649	-0.2	13.8	Oil (Brent)	62.56	-0.0
AUD	0.7853	-0.1	0.7828	0.7877	SEK	8.028	-0.5		Dow	24,502	-0.4	20.0	Oil (WTI)	59.09	-0.3
EUR	1.2355	+0.5	1.2292	1.2371	NOK	7.885	-0.4		Nasdaq	6,976	-0.1	21.0	Gold	1325.9	+0.1
GBP	1.3873	+0.3	1.3839	1.3924	HKD	7.823	+0.0		Stoxx 50	3,341	-0.8	1.1	HRC steel	751.0	+0.9
JPY	107.65	-0.9	107.41	108.60	CNY	6.341	+0.2		FTSE	7,168	-0.1	-1.5	CRB	189.8	+0.4
CAD	1.2601	+0.2			SGD	1.323	-0.0		DAX	12,197	-0.7	3.6	Wheat Chic.	474.5	-0.3
NZD/AUD	0.9272	+0.4			IDR	13,651	+0.1		CAC 40	5,109	-0.3	4.5	Sugar	13.57	-1.2
NZD/EUR	0.5893	-0.3			THB	31.48	-0.5		Nikkei	21,245	-0.6	10.4	Cotton	75.81	-0.8
NZD/GBP	0.5248	-0.0			KRW	1,084	-0.0		Shanghai	3,185	+1.0	-1.0	Coffee	124.1	+0.4
NZD/JPY	78.38	-0.7			TWD	29.35	+0.1		ASX 200	5,856	+0.6	1.7	WM powder	3190.0	-0.3
NZD/CAD	0.9175	+0.4			PHP	52.08	+0.3		NZX 50	8,122	+0.8	13.6	Australian Futures		
NZ TWI	74.99	+0.2											3 year bond	97.855	0.01
													10 year bond	97.14	0.03
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	1.50	1.83	2.36	2.85	USD	2.84	-0.01	NZGB 3 04/15/20	1.86	-0.01	1 year	1.98	0.00		
AUD	1.50	1.76	2.02	3.03	AUD	2.88	-0.04	NZGB 6 05/15/21	2.06	-0.01	2 year	2.16	-0.01		
NZD	1.75	1.91	2.16	3.29	NZD	2.98	-0.02	NZGB 5 1/2 04/15/23	2.39	-0.02	5 year	2.73	-0.01		
EUR	0.00	0.06	-0.13	1.15	GER	0.75	-0.01	NZGB 2 3/4 04/15/25	2.73	-0.02	7 year	3.01	-0.02		
GBP	0.50	0.54	1.00	1.68	GBP	1.62	0.02	NZGB 4 1/2 04/15/27	2.98	-0.02	10 year	3.29	-0.02		
JPY	-0.04	-0.07	0.05	0.30	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.34	-0.02	15 year	3.54	-0.02		
CAD	1.25	1.17	2.15	2.69	CAD	2.33	-0.01	NZGB 2 3/4 04/15/37	3.49	-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: NZT 06:45

Source: Bloomberg

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