

14 March 2018



Events Round-Up

NZ: Food Prices (m/m%), Feb: -0.5% vs. 1.2% prev.

AU: NAB Business Conditions, Feb: 21 vs. 19 prev.

AU: NAB Business Confidence, Feb: 9 vs. 12 prev.

US: NFIB Small Business Optimism, Feb: 107.6 vs. 107.1 exp.

US: CPI Ex-Food & Energy (m/m%), Feb: 0.2% vs. 0.2% exp.

US: CPI Ex-Food & Energy (y/y%), Feb: 1.8% vs. 1.8% exp.

Good Morning

Bond yields are slightly lower overnight after US core CPI matched market expectations, allaying some fears of more aggressive Federal Reserve tightening. US equities have fallen slightly with President Trump's decision to fire Secretary of State Rex Tillerson weighing on sentiment. The USD is weaker overnight and the NZD is back up to 0.7345, a two-week high.

The US 10 year bond yield fell 3bps immediately after the US core CPI release, suggesting that the market had put some weight on a higher number, although it has since retraced most of that move. The 10 year yield is at 2.86%, well within its recent range. Since Fed Chair Powell's testimony, market participants have speculated that the Fed could lift its 2018 rate projections (the 'dots') at its upcoming March meeting. But with US core CPI and the most recent average hourly earnings data only matching expectations, the hurdle for 4 Fed centrist officials to raise their 2018 'dots' at this meeting (which would increase the median forecast) now seems quite high. The FOMC meeting is next Thursday morning.

US equities initially got a boost from the on-expectations CPI release meeting, with the S&P500 rising to its highest level since early February. But US equities has since fallen back and are now down modestly on the day. President Trump announced shortly after the CPI release that he had fired Secretary of State Rex Tillerson. The equity market appeared to react negatively to the exit of another mainstream official, following the recent departure of Gary Cohn. Meanwhile, Trump said CNBC contributor and former Bear Stearns economist Larry Kudlow had a "very good chance" of

replacing Gary Cohn. According to Trump, Kudlow "has now come around to believing in tariffs" although his appointment would still be seen as more 'market friendly' than the other leading candidate, Peter Navarro.

The USD is generally weaker overnight, with the Bloomberg DXY near to a two-week low. As with the bond market, the USD fell after the CPI release, suggesting the market had been braced for a higher number. The EUR has risen near to 1.24. Overnight, ECB Governing Council member Lane said "There's no concern about the current level" of the EUR, and he was more concerned about its volatility.

The CAD is the weakest currency overnight after BoC Governor Poloz made dovish comments. Poloz said the central bank "has concluded there remains a degree of untapped supply potential in the economy" and "Canada may be able to have more economic growth...without generating higher inflation." The BoC has raised interest rates three times this cycle and the market fully prices a fourth hike in July. Canadian interest rates also fell on the day.

The NZD is the best performing currency over the past 24 hours, despite broader weakness in commodity prices. The NZD is around 0.7335, up from 0.7290 this time yesterday, and near two-week highs. NZ food prices released yesterday had no impact on the NZD although we did revise our Q1 CPI estimate a touch lower and we now expect the YoY rate to fall to 0.9%. Today, the REINZ housing data is released alongside the balance of payments. The market focus though will be GDP which is released tomorrow.

The NZDMO issued \$2b of a new 2029 maturity nominal bond yesterday at a yield of 3.135%. The bond was issued at the tight end of price guidance (a spread of 16bps to the existing 2027 bond) and attracted an order book of over \$5b, indicative of strong demand. NZ longer-dated yields fell modestly yesterday in response.

In local rates markets, the 2 year swap rate pushed up to 2.25%, its highest level since NZ CPI in late January (although well within its broader trading ranges). The ongoing rise in US Libor-OIS has started to filter through to the NZ FRA-OIS rates and consequently NZ short-dated swaps. The NZ swaps curve flattened.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	REINZ House Sales YoY	Feb		2.7	09:00
NZ	Current Account GDP Ratio YTD	4Q	-2.6	-2.6	10:45
AU	RBA's Kent Gives Speech in Sydney				11:10
AU	Westpac Consumer Conf Index	Mar		102.7	12:30
JN	BOJ Minutes of Policy Meeting				12:50
EC	ECB President Draghi speaks in Frankfurt				21:00
US	Retail Sales Ex Auto and Gas	Feb	0.4	-0.2	01:30
US	PPI Ex Food and Energy YoY	Feb	2.6	2.2	01:30

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	0.7334	+0.5	0.7308	0.7355	CHF	0.9444	-0.3	S&P 500	2,778	-0.2	17.0	Oil (Brent)	64.40	-0.8
AUD	0.7873	+0.0	0.7859	0.7898	SEK	8.210	-0.4	Dow	25,132	-0.2	20.4	Oil (WTI)	60.43	-1.5
EUR	1.2393	+0.5	1.2315	1.2407	NOK	7.738	-0.1	Nasdaq	7,546	-0.5	28.4	Gold	1327.0	+0.5
GBP	1.3972	+0.5	1.3875	1.3994	HKD	7.841	+0.0	Stoxx 50	3,397	-0.9	-0.5	HRC steel	820.0	+0.0
JPY	106.66	+0.2	106.49	107.29	CNY	6.322	-0.1	FTSE	7,139	-1.1	-3.1	CRB	193.9	-0.3
CAD	1.2942	+0.8			SGD	1.311	-0.2	DAX	12,221	-1.6	1.9	Wheat Chic.	503.3	-0.8
NZD/AUD	0.9315	+0.5			IDR	13,752	-0.1	CAC 40	5,243	+0.2	4.9	Sugar	12.62	-2.4
NZD/EUR	0.5918	+0.0			THB	31.22	-0.3	Nikkei	21,968	+0.7	12.0	Cotton	82.66	-0.7
NZD/GBP	0.5249	+0.1			KRW	1,067	+0.2	Shanghai	3,310	-0.5	2.2	Coffee	121.6	+1.5
NZD/JPY	78.22	+0.8			TWD	29.27	-0.0	ASX 200	5,975	-0.4	3.7	WM powder	3060.0	-1.0
NZD/CAD	0.9492	+1.3			PHP	52.04	+0.1	NZX 50	8,473	+0.1	18.1	Australian Futures		
NZ TWI	75.30	+0.4										3 year bond	97.865	0.00
												10 year bond	97.23	0.02
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last				Last			
USD	1.50	2.11	2.59	2.90	USD	2.85	-0.02	NZGB 3 04/15/20	1.94	-0.00		1 year	2.07	0.02
AUD	1.50	1.93	2.07	2.97	AUD	2.80	-0.01	NZGB 6 05/15/21	2.13	0.00		2 year	2.25	0.02
NZD	1.75	1.90	2.21	3.27	NZD	2.96	-0.03	NZGB 5 1/2 04/15/23	2.45	-0.00		5 year	2.76	0.00
EUR	0.00	0.06	-0.13	1.05	GER	0.62	-0.01	NZGB 2 3/4 04/15/25	2.76	-0.02		7 year	3.01	-0.00
GBP	0.50	0.60	1.05	1.60	GBP	1.49	-0.01	NZGB 4 1/2 04/15/27	2.96	-0.03		10 year	3.27	-0.00
JPY	-0.06	-0.05	0.05	0.27	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.31	-0.04		15 year	3.51	-0.01
CAD	1.25	1.17	2.17	2.60	CAD	2.21	-0.03	NZGB 2 3/4 04/15/37	3.46	-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 07:09

Source: Bloomberg

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