

14 May 2018



Events Round-Up

NZ: Manufacturing PMI, Apr: 58.9 vs. 52.2 prev.

NZ: Food prices (m/m%), Apr: 0.1% vs. 1% prev.

CA: Unemployment rate, Apr: 5.8% vs. 5.8% exp.

US: Uni Michigan consumer sentiment, May: 98.8 vs. 98.3 exp.

Good Morning

Market movements were very subdued to end the week, with no top-tier economic data released. The S&P500 edged out a small gain to end up over 2% on the week, while the USD was slightly weaker. Overnight, Trump announced on Twitter that he had instructed the Commerce Department to reverse its sanctions on China's ZTE, which the market will likely see as a key concession in the trade negotiations. The NZ Budget will be a focus for the local market this week.

There wasn't too much to move markets on Friday, but US equities nudged up again to the highest level since mid-March (although the S&P500 is still around 5% off the late January record highs). The decline in volatility over recent weeks has helped support equities (the VIX ended the week below 13) alongside some easing of fears around the pace of Fed tightening, after the slightly lower than expected US core CPI reading on Thursday.

On the trade front, President Trump announced overnight on Twitter that he had instructed the Commerce Department to help ZTE, the second largest Chinese telecoms. The Commerce Department recently banned ZTE from sourcing key US components for its phones, putting the company on the verge of bankruptcy. When US and China trade negotiators met earlier this month, the Chinese side demanded the US reverse these measures on ZTE, and the President's decision to do so will be seen as a key concession in the negotiations. Liu He, China's vice-premier and economic advisor to President Xi, may visit the US this week to resume talks on trade and Trump's announcement on ZTE should help support risk assets to start the week.

The USD closed the week slightly lower against most of the G10, although the movements were very modest. After a very strong run over the past month (the Bloomberg DXY increased almost 5%), the USD has shown signs of stabilising over the past week. Speculative short positions in the USD have been

significantly reduced according to the CFTC (the aggregate USD net short position is barely a third of what it was a month ago), which has undoubtedly played a key part in the recent USD recovery.

The NZ dollar traded a narrow range on Friday night, ending the week just below 0.6970. The NZD/AUD cross fell 0.1% to a new three month low, closing the week around 0.9230. The food price index released on Friday had no impact on the NZD, but we saw some clear signs of the minimum wage increase filtering through into some prices (i.e. the restaurant meats and ready-to-eat food category). The food price index release and another increase in domestic petrol prices has led us to increase our Q2 headline CPI estimate to 0.6% q/q and 1.7% y/y and it sets our early estimate for Q3 at 2.0% (vs. the RBNZ's forecasts from last week's MPS of 1.5% and 1.6% for Q2 and Q3 respectively).

US Treasury yields were essentially unchanged on Friday, with the 10 year Treasury yield remaining just under 3%. A better than expected US consumer confidence reading provided only a short-lived uplift to US yields. The US yield curve between the 2 year point and the 10 year point remains near its flattest level since 2007, at 42bps, with maverick St Louis Fed President Bullard saying that the yield curve could invert next year if the Fed stuck to its current tightening plans, which would "*be a bearish signal for the US economy if that develops.*" CFTC data released over the weekend showed speculative investors increased their aggregate net short position to a new record last week (anticipating higher US interest rates).

In money markets, the spread between US 3 month Libor and OIS (the so called Libor-OIS spread) narrowed 1.5bps to 47bps, its narrowest level in two months. US Libor-OIS moved from 10bps in November to almost 60bps in late March amid a surge in US Treasury bill issuance and some other technical factors. As the US Treasury has scaled back its bill issuance post-March (in response to the seasonal increase in tax receipts), Libor-OIS has moved lower and the market expects the spread to decline to 36bps by mid-June. This should help put some downward pressure on the NZ 90 day bank bill rate, which is near its highest level since the end of 2016, at 2.05%, and short dated NZ swap rates.

Locally, NZ rates extended their post-RBNZ declines on Friday. The 2 year swap fell another 2bps to 2.21% with the 10 year swap falling a similar amount. The Budget on Thursday is the key event for the local rates (and especially government bond) market this week.

In the week ahead, the highlights offshore include the release of US retail sales, Fed Vice-Chair nominee Richard Clarida's testimony to congress, Eurozone GDP and the UK labour market report. Across the Tasman, the Australian labour market report and wage price index are both key releases.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Performance Services Index	Apr		58.8	10:30

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day		
NZD	0.6969	+0.1	0.6954	0.6987	CHF	0.9998	-0.4	S&P 500	2,728	+0.2	14.1	Oil (Brent)	77.12	-0.5
AUD	0.7543	+0.1	0.7532	0.7567	SEK	8.602	-0.6	Dow	24,831	+0.4	18.8	Oil (WTI)	70.70	-0.9
EUR	1.1943	+0.2	1.1891	1.1968	NOK	8.003	-0.0	Nasdaq	7,403	-0.0	20.9	Gold	1320.7	-0.1
GBP	1.3542	+0.2	1.3502	1.3596	HKD	7.850	-0.0	Stoxx 50	3,566	-0.1	-2.0	HRC steel	878.0	+0.0
JPY	109.39	-0.0	109.15	109.52	CNY	6.334	-0.2	FTSE	7,725	+0.3	3.9	CRB	203.6	-0.5
CAD	1.2795	+0.2			SGD	1.337	-0.1	DAX	13,001	-0.2	1.8	Wheat Chic.	515.8	-1.4
NZD/AUD	0.9239	-0.2			IDR	13,960	-0.9	CAC 40	5,542	+0.1	2.5	Sugar	11.22	-0.4
NZD/EUR	0.5835	-0.2			THB	31.93	-0.1	Nikkei	22,758	+1.2	14.5	Cotton	84.62	+0.1
NZD/GBP	0.5146	-0.2			KRW	1,069	-0.3	Shanghai	3,163	-0.4	2.6	Coffee	119.4	-0.1
NZD/JPY	76.23	+0.1			TWD	29.77	-0.3	ASX 200	6,116	-0.0	4.8	WM powder	3240.0	-0.3
NZD/CAD	0.8917	+0.3			PHP	52.31	+0.7	NZX 50	8,677	+0.5	16.4	Australian Futures		
NZ TWI	72.94	-0.0										3 year bond	97.8	0.00
												10 year bond	97.20	-0.03
Interest Rates							NZ Government Bonds				NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	% Day	Last	Last	Last	% Day	Net Day	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.75	2.34	2.76	3.00	USD	2.97	0.01	NZGB 6 05/15/21	2.00	-0.02	1 year	2.08	-0.01	
AUD	1.50	1.93	2.09	2.95	AUD	2.78	0.01	NZGB 5 1/2 04/15/23	2.29	-0.02	2 year	2.21	-0.02	
NZD	1.75	2.05	2.21	3.16	NZD	2.73	-0.03	NZGB 2 3/4 04/15/25	2.55	-0.02	5 year	2.68	-0.02	
EUR	0.00	0.06	-0.14	1.01	GER	0.56	0.00	NZGB 4 1/2 04/15/27	2.73	-0.03	7 year	2.91	-0.02	
GBP	0.50	0.65	1.03	1.60	GBP	1.44	0.01	NZGB 3 04/20/29	2.90	-0.04	10 year	3.16	-0.02	
JPY	-0.04	-0.04	0.05	0.27	JPY	0.05	-0.01	NZGB 3 1/2 04/14/33	3.09	-0.04	15 year	3.42	-0.02	
CAD	1.25	1.17	2.32	2.73	CAD	2.38	-0.02	NZGB 2 3/4 04/15/37	3.23	-0.05				

* 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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