

15 March 2018



Events Round-Up

NZ: REINZ House sales (y/y%), Feb: 1.2% vs. 2.7% prev.

NZ: Current account/GDP, Q4: -2.7% vs. -2.6% exp.

CH: Industrial production (y/y%), Feb: 7.2% vs. 6.2% exp.

CH: Fixed asset investment (y/y%), Feb: 7.9% vs. 7% exp.

US: Retail sales ex-auto and gas (m/m%), Feb: 0.3% vs. 0.3% exp.

US: Retail sales control group (m/m%), Feb: 0.1% vs. 0.4% exp.

US: PPI Ex-Food & Energy (y/y%), Feb: 2.5% vs. 2.6% exp.

Good Morning

US equity and bond yields have fallen modestly overnight after a disappointing US retail sales release and as the spectre of more trade tariffs hangs over the market. FX moves have again been reasonably contained, with the NZD holding at around 0.7330.

The US 10 year bond yield fell 3bps to 2.81%, near the low of its recent 2.80% – 2.95% trading range, after a weaker than expected US retail sales release. The retail sales 'control group', which feeds directly into GDP, rose only 0.1% in February, despite near-record levels of consumer confidence. The Atlanta Fed's GDPNow index, which provides a real-time estimate of Q1 GDP, fell from 2.5% to 1.9% after the release. While a number of fundamental factors argue for higher US Treasury yields in the medium term (stronger growth, some evidence of rising US inflation, more treasury supply etc), heavy short positioning among speculative investors appears to be keeping bond yields contained for the moment. The US yield curve flattened again, with the 2s10s curve falling to 56bps and approaching the lows of the year. An inverted yield curve has historically been a good leading indicator of US recessions, although we are far from that point.

US equities fell again today, with the S&P500 down around 0.4% (it remains ~3% up this year). Besides the disappointing retail sales release, the threat of further trade measures continues to weigh on sentiment. The White House confirmed overnight it wants to reduce the US trade deficit

with China by \$100b while Reuters reported yesterday that Trump was weighing up tariffs on up to \$60b of Chinese imports. A Chinese foreign ministry spokesman said *"If the United States takes actions that harm China's interests, China will have to take measures to firmly protect our legitimate rights."*

Meanwhile, US media report that Trump is set to appoint Larry Kudlow to replace Gary Cohn as the chair of the National Economic Council. Earlier this month Kudlow described the proposed US tariffs as *"a regressive tax on low-income families"* although Trump believes Kudlow has since changed his mind and is now supportive of his trade policy. The market will hope Kudlow provides a moderating voice within an administration increasingly comprised of economic nationalists.

FX markets have been reasonably stable, with the Bloomberg DXY around 0.15% lower on the day. ECB President Draghi spoke overnight, sounding more confident that inflation will rise to target in the medium term, but given low underlying inflation at the moment he reiterated the ECB should be *"patient, persistent and prudent"*. Draghi noted that the recent rise in the EUR had been driven more by *"exogenous factors...which might weigh on inflation down the line as it does not fully arise from stronger euro area fundamentals. So this is a development we need to monitor closely."* If the EUR continues to strengthen (the USD resumes its downtrend), this will probably push back the ECB's timeline for raising rates. The EUR fell slightly on the day and is now back below 1.24.

The AUD is stronger on the day, helped by higher iron ore futures (China steel curbs are set to be eased following the end of winter) and broader strength in hard commodities. NZD/AUD remains range-bound.

The NZD traded a very narrow range overnight, between 0.7318 and 0.7349. Yesterday's NZ data had no impact on the NZD, although the REINZ data showed a continued recovery in the NZ housing market post the election last year. NZ GDP is released today, and we expect a 0.7% increase in Q4, slightly below the consensus for 0.8%. In local rates markets yesterday, the recent flattening trend continued, with the 10 year swap rate down 4bps but the 2 year rate near unchanged.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ GDP SA QoQ	4Q	0.8	0.6	10:45
NZ GDP YoY	4Q	3.1	2.7	10:45
US Initial Jobless Claims	Mar	227.5	231	01:30
US Philadelphia Fed Business Outlo	Mar	23	25.8	01:30
US NAHB Housing Market Index	Mar	72	72	03:00

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	0.7330	+0.1	0.7318	0.7349	CHF	0.9451	+0.1		S&P 500	2,755	-0.4	16.5	Oil (Brent)	64.75	+0.2
AUD	0.7884	+0.3	0.7866	0.7917	SEK	8.168	-0.6		Dow	24,885	-0.5	19.4	Oil (WTI)	60.83	+0.2
EUR	1.2375	-0.1	1.2347	1.2413	NOK	7.721	-0.2		Nasdaq	7,529	+0.2	28.6	Gold	1325.1	-0.2
GBP	1.3973	+0.1	1.3926	1.3993	HKD	7.841	+0.0		Stoxx 50	3,391	-0.2	-0.2	HRC steel	817.0	+0.0
JPY	106.35	-0.2	106.07	106.72	CNY	6.318	-0.1		FTSE	7,133	-0.1	-3.1	CRB	194.3	+0.0
CAD	1.2930	-0.3			SGD	1.309	-0.3		DAX	12,238	+0.1	2.1	Wheat Chic.	506.8	+0.4
NZD/AUD	0.9297	-0.2			IDR	13,734	-0.1		CAC 40	5,233	-0.3	5.2	Sugar	12.76	+1.1
NZD/EUR	0.5923	+0.2			THB	31.13	-0.3		Nikkei	21,777	-0.9	11.2	Cotton	83.21	+0.3
NZD/GBP	0.5246	-0.0			KRW	1,065	-0.3		Shanghai	3,291	-0.6	1.5	Coffee	121.1	-0.3
NZD/JPY	77.95	-0.1			TWD	29.24	-0.1		ASX 200	5,935	-0.7	2.8	WM powder	3080.0	+0.7
NZD/CAD	0.9478	-0.2			PHP	52.07	+0.1		NZX 50	8,433	-0.5	18.2	Australian Futures		
NZ TWI	75.21	-0.0											3 year bond	97.93	0.06
													10 year bond	97.28	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	
USD	1.50	2.12	2.58	2.86	USD	2.82	-0.02	1 year	2.07	0.00
AUD	1.50	1.94	2.06	2.94	AUD	2.74	-0.07	2 year	2.25	-0.00
NZD	1.75	1.89	2.25	3.22	NZD	2.92	-0.04	5 year	2.73	-0.03
EUR	0.00	0.06	-0.14	1.03	GER	0.59	-0.03	7 year	2.98	-0.04
GBP	0.50	0.60	1.04	1.55	GBP	1.44	-0.05	10 year	3.22	-0.04
JPY	-0.07	-0.06	0.05	0.27	JPY	0.05	-0.00	15 year	3.47	-0.04
CAD	1.25	1.17	2.16	2.56	CAD	2.17	-0.03			
								NZGB 3 04/15/20	1.93	-0.01
								NZGB 6 05/15/21	2.11	-0.02
								NZGB 5 1/2 04/15/23	2.42	-0.03
								NZGB 2 3/4 04/15/25	2.72	-0.04
								NZGB 4 1/2 04/15/27	2.92	-0.04
								NZGB 3 1/2 04/14/33	3.27	-0.04
								NZGB 2 3/4 04/15/37	3.42	-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 06:59

Source: Bloomberg

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