

15 May 2018



Events Round-Up

NZ: Services PMI, Apr: 55.9 vs. 58.8 prev.

Good Morning

US equities have made modest gains overnight, with Trump's decision to reverse sanctions on China's ZTE seen as a positive for trade negotiations between the two countries. European bond yields rose after ECB Governing Council member Villeroy implied the ECB was planning on raising rates at some point in 2019. Amid reasonably limited FX market moves, the NZD is the biggest mover overnight, and is back down to 0.6920.

As we highlighted yesterday, risk assets got a boost from Trump's Twitter announcement over the weekend that he had instructed the Commerce Department to help out China's large telecoms firm ZTE – the first major concession in the trade negotiations. Media reported yesterday that China would reciprocate, with Chinese regulators restarting their review of Qualcomm's takeover of NXP Semiconductors. Meanwhile, the WSJ reported that China would remove tariffs on some US agricultural products in exchange for Trump's U-turn on ZTE. Amid the thawing in trade relations, Vice Premier Liu He, a key economic advisor to President Xi, will visit the US this week to continue the talks. US stock index futures jumped around 0.3% higher on the open yesterday in response to the ZTE news, although they have failed to extend those gains overnight. The S&P500 remains near two month highs.

European bond yields rose after comments from ECB Governing Council member Villeroy, which were interpreted as hawkish by the market. In clarifying the ECB's forward guidance (that the ECB wouldn't raise rates until "well past" the end of QE), Villeroy said "*well past' meaning at least some quarters but not years.*" While his comments were not inconsistent with market pricing (the first 10bp rate rise is expected by June next year), they were a reminder that the ECB remains on course to end QE later this year and the market should be on notice for rate rises in 2019 (probably the second half). 10 year German bund yields rose 5bps, to 0.61% in response to the comments, helping to push the 10 year US Treasury yield to 2.99% (up 2bps on the day).

Villeroy's comments provided a short-term boost to the EUR, which moved up from around 1.1950 to just below the psychological 1.20 level. But the move has since

faded and the EUR is now marginally below 1.1950. There has been limited market impact from news that the far-left Five Star and far-right League parties, both Eurosceptic, are close to concluding a coalition deal in Italy. First quarter GDP is released tonight in Europe, with the market looking for a 0.4% increase, taking the annual rate to a very healthy (by European standards) 2.5%.

The NZD has been the underperformer in FX markets overnight, falling from around 0.6960 at the end of the day yesterday to below 0.6920 now as the market continues to digest last week's RBNZ MPS and subsequent comments from the Governor. More discussion around the spread of Mycoplasma bovis may also have affected sentiment towards the NZD at the margin, with Agriculture Minister Damien O'Connor warning yesterday that every region of the country would be affected. While the cull cows to date (about 22,000) are a relatively small share of the national dairy herd, as the number of cows found to be infected increases, the adverse effect on production will grow, further hitting confidence in the sector.

The NZD/AUD has continued to fall, and is now below 0.92, its lowest level since early February. RBA deputy Governor Guy Debelle speaks today on the outlook for the Australian economy ahead of the all-important wage price index release tomorrow and the employment report on Thursday.

Locally, NZ swap rates continued to move lower yesterday, with the 2 year rate falling 2bps to below 2.20% - a two month low. The 90 day bank bill rate also fell 2bps, reflecting some easing in offshore funding pressures (as suggested by the recent decline in the US Libor-OIS spread).

Finally, the Argentinean peso took another hammering overnight, falling almost 8% against the USD to a new low. The country is hoping to negotiate a credit line from the IMF to reassure investors and stem the decline in the currency (interest rates are already 40%). There continues to be limited fall-out in other major markets.

After a quiet few days on the data front, it's a busy 24 hours ahead. Alongside Eurozone GDP, US retail sales is released and the UK labour market report while Fed Vice-Chair nominee Clarida will testify to the Senate. Incoming NY Fed President John Williams will also be speaking.

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Coming Up

	Period	Cons.	Prev.	NZT	
AU	RBA's Debelle Gives Speech in Sydney			11:10	
AU	RBA May Meeting Minutes			13:30	
CH	Industrial Production YoY	Apr	6.4	6	14:00
UK	ILO Unemployment Rate 3Mths	Mar	4.2	4.2	20:30
UK	Employment Change 3M/3M	Mar	129	55	20:30
EC	GDP SA YoY	1 Q P	2.5	2.5	21:00
GE	ZEW Survey Expectations	May	-8.2	-8.2	21:00
NZ	Dairy Auction Whole Milk Powder MT			3311	05/16
US	Retail Sales Ex Auto and Gas	Apr	0.4	0.3	00:30
US	Retail Sales Control Group	Apr	0.4	0.4	00:30
US	Fed Nominees Clarida and Bowman Testify Before Senate			02:00	
US	Fed's Williams to Speak at Economic Club of Minnesota			05:00	

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)					Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.6917	-0.7	0.6954	0.6987	S&P 500	2,730	+0.1	14.2	Oil (Brent)	78.33	+1.6		
AUD	0.7531	-0.2	0.7532	0.7567	Dow	24,916	+0.3	19.2	Oil (WTI)	71.03	+0.5		
EUR	1.1944	+0.0	1.1891	1.1968	Nasdaq	7,421	+0.2	21.2	Gold	1313.5	-0.5		
GBP	1.3567	+0.2	1.3502	1.3596	Stoxx 50	3,566	+0.0	-2.0	HRC steel	873.0	-0.6		
JPY	109.63	+0.2	109.15	109.52	FTSE	7,711	-0.2	3.7	CRB	203.8	+0.1		
CAD	1.2797	+0.0			DAX	12,978	-0.2	1.6	Wheat Chic.	508.0	-1.5		
NZD/AUD	0.9185	-0.5			CAC 40	5,541	-0.1	2.5	Sugar	11.26	+0.4		
NZD/EUR	0.5791	-0.7			Nikkei	22,866	+0.5	15.1	Cotton	83.70	-0.9		
NZD/GBP	0.5098	-0.9			Shanghai	3,174	+0.3	2.7	Coffee	117.6	-1.6		
NZD/JPY	75.83	-0.5			ASX 200	6,135	+0.3	5.1	WM powder	3240.0	+0.0		
NZD/CAD	0.8852	-0.7			NZX 50	8,713	+0.4	17.3	Australian Futures				
NZ TWI	72.48	-0.7							3 year bond	97.775	-0.02		
									10 year bond	97.18	-0.01		
Interest Rates					NZ Government Bonds				NZ Swap Yields				
	Swap Yields				Benchmark 10 Yr Bonds				Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Last	Last	Last	Last		
USD	1.75	2.34	2.75	3.02	USD	2.99	0.02	NZGB 6 05/15/21	1.99	-0.02	1 year	2.06	-0.02
AUD	1.50	1.92	2.10	2.96	AUD	2.77	-0.01	NZGB 5 1/2 04/15/23	2.27	-0.02	2 year	2.19	-0.02
NZD	1.75	2.04	2.20	3.13	NZD	2.71	-0.02	NZGB 2 3/4 04/15/25	2.53	-0.01	5 year	2.65	-0.02
EUR	0.00	0.06	-0.12	1.04	GER	0.61	0.05	NZGB 4 1/2 04/15/27	2.71	-0.02	7 year	2.89	-0.02
GBP	0.50	0.65	1.04	1.62	GBP	1.47	0.03	NZGB 3 04/20/29	2.89	-0.02	10 year	3.14	-0.02
JPY	-0.04	-0.04	0.05	0.27	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.07	-0.02	15 year	3.40	-0.02
CAD	1.25	1.17	2.35	2.77	CAD	2.42	0.04	NZGB 2 3/4 04/15/37	3.22	-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 07:07

Source: Bloomberg

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