

16 April 2018



## Events Round-Up

NZ: Manufacturing PMI, Mar: 52.2 vs. 53.4 prev.

CH: Trade balance, Mar: -\$4.98b vs. \$27.5b exp.

CH: Exports (y/y%), Mar: -2.7% vs. 11.8% exp.

CH: Imports (y/y%), Mar: 14.4% vs. 12% exp.

US: Uni Michigan Consumer Sentiment, Apr: 97.8 vs. 100.5 exp.

## Good Morning

It was a quiet end to last week, with most markets seeing modest moves. US stocks fell slightly but were up on the week, while the US yield curve continued to grind flatter. Oil prices made a new high.

On Saturday, the US, UK and France, launched missile strikes on Syrian chemical weapons facilities, as foreshadowed by President Trump in a series of tweets last week. The attacks were framed by US Defence Secretary Mattis as a one-off, targeted operation (subject to Syria not using chemical weapons again) and according to media, care was taken to avoid Russian targets. Russian government officials, including President Putin, condemned the attack but stopped short of saying they would retaliate. We suspect there shouldn't be much adverse market reaction today, and if anything, risk markets may be supported at the margin by the one-off nature of the operation and the limited fall-out (so far) with Russia.

The S&P500 fell 0.3% Friday, despite better than expected earnings results from JP Morgan, CitiGroup and Wells Fargo. In fact, the Financials sub-index was the worst performing sector on the day (with all three banks seeing their stock prices fall). JPM CEO Dimon said "the environment is intensely competitive and lending was flat for the quarter" while Wells Fargo revealed it may face charges up to \$1b in relation to its auto insurance and mortgage sales practices. Earnings will be mechanically boosted this quarter by Trump's recent corporate tax cuts, but that has been very well foreshadowed. The corporate earnings season picks up pace this week with Goldman Sachs, Johnson and Johnson, IBM and Generic Electric, among others, reporting earnings. The VIX declined to below 18, its lowest level in a month.

The US yield curve flattened again, with the 2 year yield nudging up 1bp but and the 10 year yield declining by the same amount. The 2s10s curve is now 47bps, its flattest since 2007. Boston Fed President Rosengren said on Friday that he was in favour of hiking the Fed Funds rate another 3 times this year, more than the median

expectation among Fed policymakers of 2 hikes. Rosengren noted that the unemployment rate was very low, eventually that would translate into higher wages, and that would require the Fed Funds rate to move into restrictive territory at some point. The market continues to price around 2 hikes this year. There are plenty of Fed officials on the speaking circuit this week.

Oil prices rose again on Friday, with Brent Crude oil closing at \$72.85, its highest level since 2014. Oil prices rose 9% last week, amidst still strong global growth, declining oil inventories and rising geopolitical risk (including the potential for the US to re-impose sanctions on Iran). The IEA reported on Friday that OPEC could declare "mission accomplished" on its battle to restore balance in the oil market, with inventories set to fall to below their 5 year average in the next few months. Higher oil prices has boosted expectations of inflation, with the US 10 year "breakeven inflation" rate rising to 2.14%, also near its highest level since late 2014.

Moves in FX markets were reasonably contained, with the USD broadly flat against most major currencies. The University of Michigan consumer confidence index was weaker than expected, continuing a recent trend of data undershooting expectations; the well followed Citi Economic Surprise Index is now at its lowest level since October. Economic data still remain at robust levels though, and in the case of the consumer confidence index, near multi-decade highs.

The NZD reached a high of 0.7395 in the London morning, before declining over the remainder of the session to close at 0.7355, in sympathy with the decline in US equity markets and some mild pick-up in risk aversion. The AUD was up slightly against the USD on Friday and the best performing G10 currency on the day; better than expected Chinese import data may have helped sentiment towards the AUD, alongside strength in commodities. Consequently, NZD/AUD has retreated to below 0.95.

In local rates markets on Friday, the focus was again at the short-end of the curve, with bank bill futures rate increasing again and the 2 year swap rate rising to 2.315%, its highest level since July last year. The 90 day bank bill rate set on the day was unchanged at 2.03%. The recent increase in short-end swap rates is being driven by movements in bank bill-OIS spreads, rather than OCR expectations.

In the week ahead, the focus is on NZ CPI on Thursday where we are looking for a below consensus 0.3% rise on the quarter, taking the headline annual rate down to 0.9%. Offshore, the Australian labour market report is also released on Thursday while in the US, retail sales comes out tonight.

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Coming Up

|    |                              | Period | Cons. | Prev. | NZT   |
|----|------------------------------|--------|-------|-------|-------|
| NZ | Performance Services Index   | Mar    |       | 55    | 10:30 |
| NZ | Food Prices MoM              | Mar    |       | -0.5  | 10:45 |
| US | Retail Sales Ex Auto and Gas | Mar    | 0.4   | 0.3   | 00:30 |
| US | Retail Sales Control Group   | Mar    | 0.3   | 0.1   | 00:30 |
| US | NAHB Housing Market Index    | Apr    | 70    | 70    | 02:00 |

Source: Bloomberg, BNZ

| Foreign Exchange                |        |       |        |        | Equities |        |       | Commodities** |        |      |         |                           |        |         |
|---------------------------------|--------|-------|--------|--------|----------|--------|-------|---------------|--------|------|---------|---------------------------|--------|---------|
| Indicative overnight ranges (*) |        |       |        |        | Other FX |        |       | Major Indices |        |      | Price   |                           |        |         |
|                                 | Last   | % Day | Low    | High   |          | Last   | % Day |               |        | Last | Net Day |                           | Last   | Net Day |
| NZD                             | 0.7355 | -0.1  | 0.7346 | 0.7395 | CHF      | 0.9622 | -0.0  | S&P 500       | 2,656  | -0.3 | 14.1    | Oil (Brent)               | 72.58  | +0.8    |
| AUD                             | 0.7764 | +0.1  | 0.7759 | 0.7810 | SEK      | 8.474  | +0.8  | Dow           | 24,360 | -0.5 | 19.1    | Oil (WTI)                 | 67.39  | +0.5    |
| EUR                             | 1.2331 | +0.0  | 1.2307 | 1.2346 | NOK      | 7.776  | +0.1  | Nasdaq        | 7,107  | -0.5 | 22.4    | Gold                      | 1347.9 | +0.4    |
| GBP                             | 1.4238 | +0.1  | 1.4221 | 1.4297 | HKD      | 7.850  | +0.0  | Stoxx 50      | 3,448  | +0.1 | 0.0     | HRC steel                 | 859.0  | +0.1    |
| JPY                             | 107.35 | +0.0  | 107.26 | 107.78 | CNY      | 6.275  | -0.3  | FTSE          | 7,265  | +0.1 | -0.9    | CRB                       | 199.7  | +0.2    |
| CAD                             | 1.2608 | +0.2  |        |        | SGD      | 1.312  | -0.0  | DAX           | 12,442 | +0.2 | 2.8     | Wheat Chic.               | 507.8  | -1.7    |
| NZD/AUD                         | 0.9473 | -0.4  |        |        | IDR      | 13,755 | -0.2  | CAC 40        | 5,315  | +0.1 | 4.8     | Sugar                     | 12.20  | +0.6    |
| NZD/EUR                         | 0.5965 | -0.3  |        |        | THB      | 31.18  | -0.1  | Nikkei        | 21,779 | +0.5 | 18.8    | Cotton                    | 83.35  | +0.4    |
| NZD/GBP                         | 0.5166 | -0.4  |        |        | KRW      | 1,070  | +0.0  | Shanghai      | 3,159  | -0.7 | -2.7    | Coffee                    | 119.5  | -0.4    |
| NZD/JPY                         | 78.96  | -0.2  |        |        | TWD      | 29.31  | +0.1  | ASX 200       | 5,829  | +0.2 | -1.0    | WM powder                 | 3220.0 | +0.2    |
| NZD/CAD                         | 0.9273 | -0.2  |        |        | PHP      | 51.99  | -0.1  | NZX 50        | 8,415  | +0.1 | 16.4    | <b>Australian Futures</b> |        |         |
| NZ TWI                          | 75.59  | -0.2  |        |        |          |        |       |               |        |      |         | 3 year bond               | 97.795 | 0.00    |
|                                 |        |       |        |        |          |        |       |               |        |      |         | 10 year bond              | 97.26  | 0.00    |

  

| 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           |      |      |
| USD            | 1.75  | 2.35  | 2.67  | 2.86        | USD  | 2.83                  | -0.01 | NZGB 6 05/15/21     | 2.10 | 0.02 | 1 year         | 2.18 | 0.03 |
| AUD            | 1.50  | 2.07  | 2.13  | 2.92        | AUD  | 2.74                  | 0.07  | NZGB 5 1/2 04/15/23 | 2.37 | 0.02 | 2 year         | 2.32 | 0.02 |
| NZD            | 1.75  | 2.04  | 2.32  | 3.19        | NZD  | 2.82                  | 0.03  | NZGB 2 3/4 04/15/25 | 2.64 | 0.02 | 5 year         | 2.74 | 0.03 |
| EUR            | 0.00  | 0.06  | -0.15 | 0.95        | GER  | 0.51                  | -0.00 | NZGB 4 1/2 04/15/27 | 2.82 | 0.03 | 7 year         | 2.96 | 0.04 |
| GBP            | 0.50  | 0.78  | 1.16  | 1.56        | GBP  | 1.44                  | -0.02 | NZGB 3 04/20/29     | 3.01 | 0.04 | 10 year        | 3.19 | 0.05 |
| JPY            | -0.05 | -0.04 | 0.05  | 0.25        | JPY  | 0.04                  | 0.00  | NZGB 3 1/2 04/14/33 | 3.21 | 0.04 | 15 year        | 3.44 | 0.04 |
| CAD            | 1.25  | 1.17  | 2.23  | 2.61        | CAD  | 2.24                  | -0.04 | NZGB 2 3/4 04/15/37 | 3.41 | 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 New York Close

Source: Bloomberg

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