

16 February 2018



Events Round-Up

NZ: REINZ house sales (y/y%), Jan: 2.7 vs. -10.1 y/y
AU: Employment change ('000), Jan: 16 vs. 15 exp.
AU: Unemployment rate (%), Jan: 5.5 vs. 5.5 exp.
US: PPI ex food and energy (y/y%), Jan: 2.2 vs. 2.0 exp.
US: Philly Fed business outlook, Feb: 25.8 vs. 21.6 exp.
US: Industrial production (m/m%), Jan: -0.1 vs. 0.2 exp.
US: NAHB housing market index, Feb: 72 vs. 72 exp.

Good Morning

A soft USD theme continues to prevail although after falling through much of yesterday it's trying to recover. The US 10-year Treasury yield pushed on up to a fresh high, but has peeled off 5bps since, while US equities continue to recover.

The S&P500 is on track to rise for the fifth daily consecutive gain, currently up 0.5% and recovering about half of its recent meltdown. The VIX index has spent most of the day trading below 20, something it hasn't done in over a week.

However, the risk-on message hasn't got through to the bond and currency market. The US 10-year Treasury yield continued to power on up yesterday to reach a fresh four-year high of 2.94%, but there has been a notable retracement, and the yield is back down to 2.88%, down 3bps from the NZ close. A flattening bias has been evident, with the 2-yr rate up a touch.

There have been a number of US economic releases overnight, but none were market-moving. Continuing on from yesterday's theme of higher inflation and a weaker economy, the hard data showed PPI inflation was higher than expected, while industrial production data were softer. Confidence data showed a stronger Philly Fed survey, while builders remained optimistic in the NAHB survey. Of note, Eurostat reported that the EU's trade surplus with the US rose by 7% to \$160bn in 2017 despite the stronger euro. At face value this confirmed the view that in a medium-long term context EUR was still a cheap currency despite its recent strong appreciation, while data like this might also get the attention of President Trump and his penchant for imposing trade barriers.

In the currency market, it has been the safe-haven currencies JPY and CHF that have outperformed over the

past 24 hours, while the USD is lower against all the majors. USD/JPY fell to a fresh low of 106.18, not helped by Japan's Finance Minister Aso saying that "...the yen isn't rising or falling abruptly enough for us to intervene" after earlier remarking in a Parliamentary testimony that he wouldn't be commenting on intervention. USD/JPY is back up to 106.70 now.

GBP has also performed well. Politico reported EU officials are considering watering down the mechanism that would sanction the UK if it breaks EU rules during the Brexit transition periods. Later, an EU official said that no decision had been taken. GBP touched as high as 1.41 and has recently settled around 1.4040.

A soft USD trend continued through to late last evening, which saw the NZD peak at 0.7411 but since then the move has been largely reversed as the USD has recovered. The NZD trades this morning at 0.7380 near the level at the NZ close.

The AUD has been the worst performer for the day and overnight. There wasn't a significant reaction to the employment report, which was in line, alongside the unemployment rate estimate of 5.5%. The downward move has come in the overnight session, seeing the AUD take a peek below 0.79. NZD/AUD has nudged up to 0.9330, near its high for the session around 0.9340 and its highest level since August. There have been no obvious drivers for the move. Our range of NZD/AUD short, medium and long term models put fair value squarely within a 0.90-0.94 range and we have been neutral on the cross for some time and remain so, given similar economic and monetary policy outlooks. The drift up towards 0.93 over recent months might just reflect a gradual unwind of long AUD/NZD trades that had little merit in our view.

NZ rates played catch-up to the previous day's USTs selloff, seeing the NZ 10-year government rate up 6bps to 3.0%, a level it hasn't closed at since late-October. This saw the NZ -US 10-year spread close at 8.5bps and it seems just a matter of time before the spread goes negative, as NZ-US short end spreads already have.

In the day ahead we'll be interested in whether the NZ manufacturing PMI recovers from its swoon in December. RBA Governor Lowe gives testimony to a Parliamentary committee. Tonight sees US housing market and consumer sentiment data, none of which are expected to be market moving.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	BNZ manufacturing PMI	Jan		51.2	10:30
AU	RBA Governor gives testimony to parliamentary committee				11:30
UK	Retail sales ex auto fuel (y/y%)	Jan	2.4	1.3	22:30
US	Housing starts ('000)	Jan	1235	1192	02:30
US	Building permits ('000)	Jan	1300	1302	02:30
US	U. of Mich. cons. sentiment	Feb	95.3	95.7	04:00

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	0.7379	+0.2	0.7368	0.7411	CHF	0.9238	-0.3	S&P 500	2,703	+0.5	15.1	Oil (Brent)	63.74	-0.6
AUD	0.7909	-0.2	0.7892	0.7967	SEK	7.962	+0.1	Dow	24,952	+0.5	21.1	Oil (WTI)	60.34	+0.3
EUR	1.2467	+0.1	1.2455	1.2510	NOK	7.796	-0.0	Nasdaq	7,186	+0.9	23.5	Gold	1352.1	-0.4
GBP	1.4037	+0.3	1.4007	1.4100	HKD	7.821	-0.0	Stoxx 50	3,386	+0.6	1.9	HRC steel	745.0	+0.1
JPY	106.70	-0.3	106.18	106.80	CNY	6.342	+0.0	FTSE	7,228	+0.3	-1.0	CRB	192.1	+0.2
CAD	1.2515	+0.2			SGD	1.311	-0.2	DAX	12,328	+0.1	4.5	Wheat Chic.	468.0	+0.5
NZD/AUD	0.9330	+0.4			IDR	13,560	-0.5	CAC 40	5,218	+0.9	6.0	Sugar	13.69	+1.8
NZD/EUR	0.5919	+0.0			THB	31.28	-0.1	Nikkei	21,465	+1.5	10.4	Cotton	75.22	-0.5
NZD/GBP	0.5257	-0.1			KRW	1,073	-0.4	Shanghai	3,199	+0.4	-0.4	Coffee	124.3	-0.5
NZD/JPY	78.73	-0.1			TWD	29.04	-0.8	ASX 200	5,909	+1.2	1.7	WM powder	3210.0	+0.6
NZD/CAD	0.9235	+0.3			PHP	52.14	+0.1	NZX 50	8,063	+0.1	12.3	Australian Futures		
NZ TWI	75.58	+0.1										3 year bond	97.85	0.02
												10 year bond	97.10	0.03
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	Last			
USD	1.50	1.85	2.45	2.90	USD	2.89	-0.02	NZGB 3 04/15/20	1.87	0.01	1 year	1.99	0.01	
AUD	1.50	1.76	2.03	3.05	AUD	2.92	0.07	NZGB 6 05/15/21	2.07	0.02	2 year	2.17	0.02	
NZD	1.75	1.90	2.16	3.30	NZD	3.00	0.06	NZGB 5 1/2 04/15/23	2.42	0.04	5 year	2.75	0.04	
EUR	0.00	0.06	-0.12	1.16	GER	0.76	0.00	NZGB 2 3/4 04/15/25	2.76	0.05	7 year	3.03	0.04	
GBP	0.50	0.54	1.02	1.71	GBP	1.65	0.01	NZGB 4 1/2 04/15/27	3.00	0.06	10 year	3.30	0.04	
JPY	-0.03	-0.06	0.05	0.29	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.37	0.07	15 year	3.55	0.04	
CAD	1.25	1.17	2.19	2.71	CAD	2.37	-0.01	NZGB 2 3/4 04/15/37	3.52	0.06				

* 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 06:46

Source: Bloomberg

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