

16 January 2018



## Events Round-Up

NZ: Food Prices (m/m%), Dec: -0.8 vs. -0.4 prev.

## Good Morning

Markets are quiet with the US on holiday, but that hasn't prevented another lurch down in the USD, while the NZD makes further gains for the year.

"Sell USD against anything" seems to be the current mantra early in 2018, with the USD down overnight against all the key majors and for the year to date only the Argentina Peso and Hong Kong dollar have underperformed the greenback when considering the top 32 global currencies.

There hasn't been a great deal of news and the above sentiment appears to be the key driver of markets. The NZD has outperformed as the new week begins, making up for its lack of upside on Friday. During local hours we saw an unexplainable dip to 0.7231 after the release of the food price index which came in line with our expectations (a seasonally weak -0.8%), but it has been onwards and upwards since then, with the overnight high of 0.7315 reached around sunrise.

As we noted in our Weekly yesterday, technical indicators put the first area of resistance at 0.7370 while the relative strength indicator already suggests that the NZD is well into over-bought territory. As most currencies are rising against the USD, this is probably better framed as the USD itself starting to look oversold. The DXY index has reached a 3-year low while the broader BBDXY index isn't far off breaking through the September 2017 low and looks to soon achieve the same milestone. Both technical relative strength indicators are in "oversold" territory.

Fundamentally, the market view seems to be that other currencies are favoured now as the US monetary policy cycle now looks quite mature while other central banks like the ECB, BoE, and BoJ are at the very early stages of dialling back "emergency" policy settings induced by the GFC. At the same time, the broadly based global economic upswing supports emerging market currencies, while the US economy's twin current account and fiscal deficits have also recently got some attention. For developed countries, interest rate spreads remain well in the USD's favour, but taking a longer term perspective, other currencies are seen to have more upside. This

would be the same conclusion drawn from long-term purchasing power parity analysis, with EUR, GBP and JPY still looking very cheap. We'll see.

Turning to the news rather than my ramblings, the Bundesbank reported that it decided to include Yuan in currency reserves. CNH was 0.5% stronger, but this move probably would have occurred anyway without that news, against the backdrop of a weak USD.

In Europe, reports are emerging that the SPD will not necessarily vote this Sunday to join the proposed Grand Coalition to allow Chancellor Merkel to lead a fourth term of government. The SPD party's poll ratings are at rock bottom and they weren't keen participants from election night. It's looking like a coin toss and a rejection of the deal would lead to fresh German elections. The market doesn't seem perturbed by this political uncertainty. EUR made a charge towards 1.23 but has failed to break through on 3 occasions. The ECB's Hansson offered some hawkish rhetoric, saying that ending QE in September in one hit wouldn't be a big deal anymore and he advocated reducing the importance of net asset purchases in the ECB's communications "soon". His comments only caused a fleeting spike in EUR. NZD/EUR is up 0.2% for the day to 0.5955.

NZD/AUD has tracked sideways in a 0.9140-0.9180 range while the other NZD crosses show a modest lift from the weekend close and yesterday's local close. There was little activity in the NZ rates markets, with some upward drift reflecting global forces. The 2-year swap rate was up 1bp to 2.22% while the 10-year rate was up 3bps to 3.23%.

Today sees the release of the NZ QSBO, but the expected plunge in many indicators should be ignored, simply reflecting the survey picking up the formation of the new government since the previous quarterly survey – some negative headlines for sure, but not particularly meaningful. Electronic card transactions are expected to show a modest gain for December. Reduced dairy volumes (owing to drought conditions in some areas) offered at the GDT dairy auction tonight should help support dairy prices. The first auction early in the New Year when most were still on holiday showed a modest recovery in pricing after the slump towards the end of last year. Elsewhere, UK CPI inflation data are expected to show slightly reduced annual rates of headline and core inflation.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

Coming Up

		Period	Cons.	Prev.	NZT
NZ	QSBO business confidence	Q4		7	10:00
NZ	Card spending retail (m/m%)	Dec	0.5	1.2	10:45
UK	CPI (y/y%)	Dec	3.0	3.1	22:30
UK	Core CPI (y/y%)	Dec	2.6	2.7	22:30
NZ	GDT dairy auction avg winning price				

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**			
Indicative overnight ranges (*)					Other FX			Major Indices				Price			
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day	
NZD	0.7308	+0.9	0.7258	0.7315	CHF	0.9627	-0.5		S&P 500	2,786	+0.7	22.5	Oil (Brent)	70.20	+0.5
AUD	0.7973	+0.7	0.7938	0.7979	SEK	8.005	-0.6		Dow	25,803	+0.9	29.8	Oil (WTI)	64.68	+0.6
EUR	1.2281	+0.6	1.2196	1.2297	NOK	7.874	-0.6		Nasdaq	7,261	+0.7	30.3	Gold	1341.0	+0.5
GBP	1.3814	+0.6	1.3732	1.3820	HKD	7.824	+0.0		Stoxx 50	3,612	-0.0	8.6	HRC steel	673.0	+0.6
JPY	110.47	-0.5	110.47	110.90	CNY	6.437	-0.5		FTSE	7,769	-0.1	5.9	CRB	196.1	+0.5
CAD	1.2416	-0.3			SGD	1.321	-0.2		DAX	13,201	-0.3	13.5	Wheat Chic.	434.3	-2.8
NZD/AUD	0.9166	+0.1			IDR	13,332	-0.2		CAC 40	5,510	-0.1	11.9	Sugar	14.18	+0.0
NZD/EUR	0.5951	+0.1			THB	31.92	-0.1		Nikkei	23,715	+0.3	24.2	Cotton	81.68	-1.2
NZD/GBP	0.5290	+0.2			KRW	1,063	-0.2		Shanghai	3,410	-0.5	9.9	Coffee	122.3	-0.4
NZD/JPY	80.73	+0.4			TWD	29.54	-0.3		ASX 200	6,077	+0.1	5.7	WM powder	3035.0	+0.0
NZD/CAD	0.9074	+0.5			PHP	50.34	-0.1		NZX 50	8,211	-0.4	16.1	<b>Australian Futures</b>		
NZ TWI	75.37	+0.6											3 year bond	97.815	-0.01
													10 year bond	97.23	-0.01

  

Interest Rates								NZ Government Bonds			NZ Swap Yields		
	Rates		Swap Yields		Benchmark 10 Yr Bonds								
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last	Last		
USD	1.50	1.72	2.21	2.54	USD	2.55	0.00	NZGB 3 04/15/20	1.98	0.03	1 year	2.00	0.01
AUD	1.50	1.80	2.04	2.91	AUD	2.77	0.02	NZGB 6 05/15/21	2.15	0.02	2 year	2.22	0.01
NZD	1.75	1.88	2.22	3.23	NZD	2.87	0.02	NZGB 5 1/2 04/15/23	2.41	0.02	5 year	2.73	0.02
EUR	0.00	0.06	-0.12	0.97	GER	0.59	0.01	NZGB 2 3/4 04/15/25	2.67	0.01	7 year	2.98	0.02
GBP	0.50	0.52	0.86	1.40	GBP	1.32	-0.02	NZGB 4 1/2 04/15/27	2.87	0.02	10 year	3.23	0.03
JPY	-0.03	-0.03	0.05	0.28	JPY	0.08	-0.00	NZGB 3 1/2 04/14/33	3.19	0.02	15 year	3.48	0.03
CAD	1.00	1.17	2.14	2.52	CAD	2.19	0.01	NZGB 2 3/4 04/15/37	3.34	0.02			

\* 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 06:49

Source: Bloomberg

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## Contact Details

**Jason Wong**

Senior Markets Strategist  
+64 4 924 7652

**Nick Smyth**

Interest Rate Strategist  
+64 4 924 7653

## National Australia Bank

**Ray Attrill**

Head of FX Strategy  
+61 2 9237 1848

**Rodrigo Catril**

Currency Strategist  
+61 2 9293 7109

**Gavin Friend**

Senior Markets Strategist  
+44 20 7710 2155

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