

16 March 2018



Events Round-Up

- NZ: GDP (q/q%), Q4: 0.6% vs. 0.8% exp.
- NZ: GDP (y/y%), Q4: 2.9% vs. 3.1% exp.
- US: Initial jobless claims, Mar: 226k vs. 227.5k exp.
- US: Empire Manufacturing Survey, Mar: 22.5 vs. 15 exp.
- US: Philly Fed Business Outlook, Mar: 22.3 vs. 23 exp.
- US: NAHB housing index, Mar: 70 vs. 72 exp.

Good Morning

The USD is broadly higher overnight with Trump's new economic advisor Larry Kudlow perhaps helping sentiment by declaring he wanted to see the currency "a wee bit stronger". The NZD is back down to 0.7270. US bond yields have nudged up while equities are near unchanged.

New head of the National Economic Council, Larry Kudlow, appeared on CNBC (for which he had been a contributor) just hours after taking the job and declared "I would buy King Dollar". He also said he wanted to see the USD "a wee bit stronger." The market perception up to now is that the US administration would prefer a weaker dollar, based on previous comments made by Treasury Secretary Mnuchin in Davos and Trump. Kudlow's personal leanings probably won't change that perception, and the focus will shift back to economic fundamentals, but it arguably helped sentiment towards the USD on the day (although there wasn't much immediate market impact).

The Bloomberg dollar index is up 0.4% on the day, also helped at the margin by another batch of strong US manufacturing data (the Philly Fed and Empire surveys released overnight). The EUR is back to 1.2330, erasing its gains from earlier this week, while the commodity currencies have declined in line with generally weaker commodity prices and softening risk appetite.

The GBP has outperformed overnight (it is unchanged against the USD) amid speculation that a post-Brexit transitional deal might be agreed soon. Brexit Secretary David Davis said he expected the deal to be finalized next week. He meets the European chief negotiator Michael Barnier on Monday ahead of the EU Summit.

The S&P500 and Nasdaq are down slightly (although the Dow is up 0.30%) overnight as the market awaits the Fed meeting next week and more news on trade tariffs. Speaking in that same CNBC interview, Kudlow, who is seen to be pro free-trade, said "China needs a comeuppance on trade", another signal that the

US administration is preparing specific tariffs for China. The market reaction to any tariffs on China will depend in part on how narrow or broad the measures are and what the Chinese response is. US bond yields nudged up slightly but the 10 year yield, at 2.82%, remains near to its recent lows.

NZ Q4 GDP yesterday was slightly softer than expectations (0.6% v 0.8%), causing an immediate 30pip fall in the NZD from 0.7330 to 0.7300. The NZD then spent the remainder of the local session grinding back to 0.7330. The GDP release didn't materially change our outlook for the economy or the monetary policy outlook (it was only marginally softer than the RBNZ's 0.7% forecast). Overnight, the NZD has since fallen down to 0.7275 in sympathy with the broader strength in the USD and some softening in risk appetite.

The NZ 2 year swap rate rose again yesterday, by 2bps to 2.27%, its highest level since September last year, despite rates falling in the US and Australia. The continued rise in US Libor-OIS (it has risen from around 10bps in November to almost 50bps now) has started to filter through to NZ bank bill futures and NZ FRA-OIS spreads, and consequently the 2 year swap rate. There hasn't been any material change in RBNZ rate expectations. The swaps curve flattened sharply again, with the 2 year swap increasing and long-end swap rates falling.

In the session ahead we have the NZ Manufacturing PMI, and RBA Deputy Governor Guy Debelle will be giving a speech with Q&A. In the US, its mainly second-tier data overnight.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ BusinessNZ Manufacturing PMI	Feb		55.6	10:30
AU RBA's Debelle Gives Speech in Sydney				11:45
EC CPI Core YoY	Feb F	1	1	23:00
US Housing Starts	Feb	1290	1326	01:30
US Building Permits	Feb	1320	1396	01:30
US Industrial Production MoM	Feb	0.4	-0.1	02:15
US U. of Mich. Sentiment	Mar P	99.2	99.7	03:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**					
Indicative overnight ranges (*)				Other FX		Major Indices				Price					
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7273	-0.8	0.7274	0.7331	CHF	0.9494	+0.5		S&P 500	2,752	-0.1	15.4	Oil (Brent)	65.21	+0.5
AUD	0.7802	-1.0	0.7802	0.7881	SEK	8.167	-0.1		Dow	24,888	+0.3	18.8	Oil (WTI)	61.27	+0.5
EUR	1.2317	-0.4	1.2311	1.2383	NOK	7.694	-0.3		Nasdaq	7,478	-0.3	26.7	Gold	1317.9	-0.6
GBP	1.3949	-0.1	1.3922	1.3989	HKD	7.842	+0.0		Stoxx 50	3,414	+0.7	0.1	HRC steel	817.0	+0.0
JPY	106.07	-0.2	105.79	106.30	CNY	6.322	+0.1		FTSE	7,140	+0.1	-3.1	CRB	194.0	-0.3
CAD	1.3051	+0.7			SGD	1.312	+0.3		DAX	12,346	+0.9	2.8	Wheat Chic.	499.8	-1.9
NZD/AUD	0.9322	+0.1			IDR	13,749	+0.1		CAC 40	5,267	-0.3	5.7	Sugar	12.74	-0.2
NZD/EUR	0.5905	-0.4			THB	31.18	+0.1		Nikkei	21,804	+0.1	11.3	Cotton	83.71	+0.1
NZD/GBP	0.5214	-0.7			KRW	1,066	+0.1		Shanghai	3,291	-0.0	0.7	Coffee	118.8	-1.8
NZD/JPY	77.14	-1.0			TWD	29.15	-0.3		ASX 200	5,921	-0.2	2.3	WMI powder	3090.0	-0.2
NZD/CAD	0.9492	-0.1			PHP	51.94	-0.2		NZX 50	8,467	+0.4	18.4	Australian Futures		
NZ TWI	74.95	-0.4											3 year bond	97.93	0.04
													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		Last				
USD	1.50	2.15	2.57	2.85	USD	2.82	0.00	NZGB 3 04/15/20	1.91	-0.02	1 year	2.11	0.03
AUD	1.50	1.96	2.03	2.89	AUD	2.71	-0.03	NZGB 6 05/15/21	2.09	-0.02	2 year	2.27	0.02
NZD	1.75	1.91	2.27	3.21	NZD	2.88	-0.04	NZGB 5 1/2 04/15/23	2.38	-0.04	5 year	2.73	-0.00
EUR	0.00	0.06	-0.15	1.01	GER	0.58	-0.02	NZGB 2 3/4 04/15/25	2.67	-0.05	7 year	2.97	-0.01
GBP	0.50	0.60	1.04	1.55	GBP	1.44	0.00	NZGB 4 1/2 04/15/27	2.88	-0.04	10 year	3.21	-0.02
JPY	-0.07	-0.05	0.05	0.26	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.23	-0.04	15 year	3.45	-0.02
CAD	1.25	1.17	2.13	2.54	CAD	2.15	-0.01	NZGB 2 3/4 04/15/37	3.38	-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 07:33

Source: Bloomberg

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