

17 April 2018



Events Round-Up

- NZ: Services PMI, Mar: 58.8 vs. 55.3 prev.
- NZ: Food prices (/m/m%), Mar: 1% vs. -0.5% exp.
- US: Empire Manufacturing, Apr: 15.8 vs. 18.4 exp.
- US: Retail sales ex auto and gas (m/m%), Mar: 0.3% vs. 0.4% exp.
- US: Retail sales control group (m/m%), Mar: 0.4% vs. 0.4% exp.
- US: NAHB housing market index, Apr: 69 vs. 70 exp.

Good Morning

US equities have moved higher overnight on some easing in geopolitical risks and ahead of more corporate earnings reports later this week. The US dollar is broadly weaker after President Trump accused China and Russia of "playing the currency devaluation game". The NZD has been one of the laggards, and is unchanged from this time yesterday.

As we suspected, there was no major market fall-out from the US-led strikes on Syria over the weekend, with the market seemingly reassured by the one-off nature of the operation and the deliberate avoidance of Russian targets (which has met with verbal condemnation from Russia as opposed to any military retaliation). US equity indices are up between 0.8% to 1% and close to one month highs, with the confrontation over Syria likely to recede from the headlines now. The VIX has dipped again, to below 17.

Corporate earnings remain a focus for the equity market with Bank of America the latest US bank to report better than expected earnings overnight (following Citi, JPM and Wells Fargo on Friday). The Bank of America share price rose around a percent, a similar move to the financials sub-sector of the S&P500. The recent corporate tax cut has boosted earnings expectations for this quarter and, so far, it seems that the hurdle to positively surprise investors (as opposed to analysts) is quite high.

The US dollar is broadly weaker overnight after President Trump took to Twitter saying "*Russia and China are playing the Currency Devaluation game as the U.S. keeps raising interest rates. Not acceptable!*" We're not quite sure what to make of this one: the CNY is almost 10% stronger than a year ago, while the Ruble's recent weakness looks more related to the imposition of sanctions on Russia than anything else. Moreover, one would think higher US interest rates would boost the USD, all else equal, although its decline over the past 12 months (in the face of Fed rate hikes) has surprised many

commentators (and may be partly related to a perception that the US administration prefers a weaker USD to help the export sector). Trump's comments come only a few days after the US Treasury maintained China on its watch-list but didn't label any country as a "currency manipulator".

The Bloomberg DXY fell around 0.3% on the day, and is close to one-month lows (but remains within the trading range established since late January). US retail sales met expectations overnight and caused little market reaction, with the Atlanta Fed GDPNow estimate of Q1 GDP essentially unchanged at around 1.9% (q/q% ann). The Empire manufacturing index declined modestly, with all the key components (such as new orders) lower than last month. The GBP is one of the outperformers on the day, on no real news, and is close to its highest level since Brexit.

The NZD is unchanged overnight, and is one of the worst performers on the day. The NZD initially fell to a low of 0.7334 in the London morning, before reversing higher, in sympathy with a broadly weaker USD, after Trump's comments. Following the release of the Food Price Index yesterday, we nudged up our CPI forecast (released Thursday) to 0.4%, which would translate to an annual increase in the headline rate of 1.0%. RBNZ Governor Adrian Orr was interviewed on radio yesterday morning, saying the NZ economy was "near full employment." His first MPS is on the 10th of May.

US Treasury yields are slightly higher overnight, with the 10 year Treasury yield at 2.83%. The 10 year Treasury has remained range-bound between 2.7% and 2.95% since early February. There were more Fed officials out speaking overnight, with both Dudley and Kashkari saying the Fed shouldn't overreact to a modest inflation overshoot. Kashkari said "*if inflation ticks up to 2.1% or 2.2% or 2.3%, that to me does not call for some dramatic increase in interest rates*" while Dudley said that only "*if inflation were to go above 2 percent by an appreciable margin, then I think the gradual path might have to be altered.*" Core PCE inflation is likely to drift towards 2% in the coming months, and it seems like the Fed doesn't want the market getting carried away if it nudges above target.

The WSJ reported that Trump would appoint Pimco economist Richard Clarida to the role of Vice Chair. Most commentators seem to think Clarida's views will be reasonably aligned with Chair Powell, although in an interview with Bloomberg in December, Clarida said he thought the "neutral rate" in the US was closer to 2% (vs. Fed policymakers long-run expectation of 2.9%). His appointment will need to be confirmed by the Senate.

In the day ahead we have Chinese GDP and industrial

production, the UK labour market report, and the Global Dairy Trade auction.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	REINZ House Sales YoY	Mar		1.2	09:00
AU	RBA April Meeting Minutes				13:30
CH	GDP YoY	1Q	6.8	6.8	14:00
CH	Industrial Production YoY	Mar	6.4	6.2	14:00
UK	ILO Unemployment Rate 3Mths	Feb	4.3	4.3	20:30
UK	Employment Change 3M/3M	Feb	55	168	20:30
GE	ZEW Survey Expectations	Apr	-1	5.1	21:00
NZ	Dairy Auction Whole Milk Powder MT			3278	04/18
US	Housing Starts	Mar	1266	1236	00:30

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	0.7361	-0.1	0.7334	0.7371	CHF	0.9597	-0.3	2,683	+1.0	15.2	Oil (Brent)	71.43	-1.6	
AUD	0.7779	+0.2	0.7752	0.7782	SEK	8.410	-0.8	Dow	24,614	+1.0	20.3	Oil (WTI)	66.24	-1.7
EUR	1.2381	+0.4	1.2324	1.2395	NOK	7.774	-0.0	Nasdaq	7,168	+0.9	23.5	Gold	1350.6	+0.2
GBP	1.4329	+0.6	1.4237	1.4338	HKD	7.850	+0.0	Stoxx 50	3,441	-0.2	-0.2	HRC steel	865.0	+0.7
JPY	107.07	-0.3	107.04	107.39	CNY	6.277	+0.0	FTSE	7,198	-0.9	-1.8	CRB	199.5	-0.1
CAD	1.2570	-0.3			SGD	1.311	-0.1	DAX	12,391	-0.4	2.3	Wheat Chic.	497.5	-2.0
NZD/AUD	0.9463	-0.1			IDR	13,780	+0.2	CAC 40	5,313	+0.2	4.8	Sugar	12.17	-0.4
NZD/EUR	0.5945	-0.4			THB	31.18	+0.0	Nikkei	21,836	+0.3	19.0	Cotton	83.22	+0.0
NZD/GBP	0.5137	-0.5			KRW	1,074	+0.4	Shanghai	3,111	-1.5	-3.5	Coffee	116.6	-2.5
NZD/JPY	78.81	-0.3			TWD	29.42	+0.4	ASX 200	5,841	+0.2	-0.8	WM powder	3280.0	+1.9
NZD/CAD	0.9253	-0.2			PHP	52.07	+0.1	NZX 50	8,406	-0.1	16.3	Australian Futures		
NZ TWI	75.65	-0.2									3 year bond	97.74	-0.06	
											10 year bond	97.24	-0.03	
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				
USD	1.75	2.35	2.69	2.86	USD	2.83	0.00	NZGB 6 05/15/21	2.11	0.01	1 year	2.19	0.01	
AUD	1.50	2.08	2.19	2.94	AUD	2.75	0.01	NZGB 5 1/2 04/15/23	2.38	0.01	2 year	2.33	0.02	
NZD	1.75	2.04	2.33	3.21	NZD	2.83	0.01	NZGB 2 3/4 04/15/25	2.65	0.01	5 year	2.75	0.02	
EUR	0.00	0.06	-0.14	0.97	GER	0.53	0.01	NZGB 4 1/2 04/15/27	2.83	0.01	7 year	2.97	0.01	
GBP	0.50	0.78	1.17	1.58	GBP	1.46	0.03	NZGB 3 04/20/29	3.02	0.01	10 year	3.20	0.01	
JPY	-0.05	-0.04	0.05	0.26	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.22	0.01	15 year	3.45	0.01	
CAD	1.25	1.17	2.26	2.65	CAD	2.27	0.03	NZGB 2 3/4 04/15/37	3.42	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 06:52

Source: Bloomberg

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