

17 January 2018



Events Round-Up

- NZ: QSBO business confid (net%), Q4: -12 vs. 5 prev.
- NZ: Card spending retail (m/m%), Dec: 0.5 vs. 0.5 exp.
- UK: CPI (y/y%), Dec: 3.0 vs. 3.0 exp.
- UK: Core CPI (y/y%), Dec: 2.5 vs. 2.6 exp.
- NZ: GDT dairy auction avg winning price: +4.9%

Good Morning

US markets are open after their long weekend but market movements have been fairly restrained, with little news.

US equities continue to reach fresh milestones, with the Dow Jones Index breaking up through 26,000 and the S&P500 through 2800, as the earnings season kicks off and investors still feel optimistic about the outlook. Selling pressure in the USD has taken a breather, with the key USD indices drifting higher, with EUR, GBP and JPY all slightly losing ground against the greenback. Funding for the US government runs out at the end of Friday, and sources suggest that Republican leaders are weighing another short-term measure that would extend it until mid-February. US 10-year Treasuries are currently trading near the top of the 2.52-2.56% range it has traded overnight.

The NZD has drifted lower since this time yesterday, from just above 0.73 to as low as 0.7259 early this morning. As expected, the QSBO showed a chunky fall in business confidence, induced by the formation of the new government, but other indicators showed a less marked fall compared to the more timely ANZ survey. Indicators of capacity constraints tightened, while pricing and cost indicators showed rising pressure. The market wasn't in the mood to react to this report, with swap rates unchanged for the session, while the OIS market continues to price in just under one full rate hike by the November meeting.

In the overnight GDT dairy auction, average prices rose by 4.9% with whole milk powder up 5.1%. Futures pricing was pointing to a strong result but the market was a little sceptical, as the futures market has recently tended to trade above auction prices. Fonterra's reduction in volume offered because of drought conditions and the steep fall towards the end of last year go some way in explaining the rebound in pricing. The NZD didn't react to the news and it has hovered near 0.7270 since late last night.

On the European open, EUR dipped lower on a Spiegel report that the Berlin division of the SPD would reject the vote to form a grand coalition with Merkel's party. Once investors noted that this division only casts 23 votes out of 600 at this Sunday's conference, the news was soon brushed off. Our NAB colleagues in London note that it is clear the conference will be a tough and long meeting and it is up to party leader Schultz to convince party members of the benefits of a partnership with Merkel's Conservatives.

There were further EUR-negative headlines, with reports the ECB would maintain its bond-buying pledge when it meets next week and the ECB's Villeroy de Galhau saying that the recent euro appreciation is a source of uncertainty and requires monitoring as it could damp inflation. Regarding an ECB exit from its bond-buying program, Villeroy said, "...we are not pre-committed in terms of precise timing. We will make this contingent on the actual progress made in achieving our inflation objective". EUR dipped below the 1.22 mark before recovering and it currently sits at 1.2240 down only slightly for the day. NZD/EUR is down a touch to 0.5945.

The only other news to report is that UK CPI inflation eased for the first time in six months in December to 3.0%, as expected, although the core rate was a touch softer at 2.5%. There was little market reaction, with GBP trading in unison with EUR overnight and it is a little softer at 1.3775. NZD/GBP is down slightly to 0.5280.

There are no top-tier economic releases during the local session ahead. Overnight the Bank of Canada meets and is widely expected to hike rates (90% priced) for the third time this cycle. More important for CAD will be the commentary which will help guide expectations for further possible moves. Read-through for the RBNZ and RBA is limited but it does highlight how other central banks are moving to tighten policy and it is just a matter of time before central banks down-under join in that global theme. We expect such moves in the second half.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Westpac consumer confid.	Jan		103.3	12:30
AU	Home loans (m/m%)	Nov	0.0	-0.6	13:30
US	Industrial production (m/m%)	Dec	0.4	0.2	03:15
CA	Bank of Canada rate (%)		1.25	1.0	04:00
US	NAHB housing market index	Jan	72	74	04:00

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	0.7275	-0.3	0.7259	0.7296	CHF	0.9626	-0.1		S&P 500	2,792	+0.2	22.8	Oil (Brent)	69.29	-1.3
AUD	0.7956	-0.1	0.7937	0.7975	SEK	8.047	+0.3		Dow	25,928	+0.5	30.4	Oil (WTI)	63.79	-0.8
EUR	1.2240	-0.2	1.2195	1.2283	NOK	7.879	-0.1		Nasdaq	7,275	+0.2	30.5	Gold	1334.2	-0.0
GBP	1.3776	-0.1	1.3742	1.3803	HKD	7.823	-0.0		Stoxx 50	3,622	+0.3	9.9	HRC steel	675.0	+0.9
JPY	110.76	+0.2	110.60	110.95	CNY	6.444	+0.1		FTSE	7,756	-0.2	5.9	CRB	194.7	-0.7
CAD	1.2424	-0.0			SGD	1.323	+0.1		DAX	13,246	+0.3	14.6	Wheat Chic.	429.3	-1.2
NZD/AUD	0.9144	-0.2			IDR	13,338	+0.0		CAC 40	5,514	+0.3	12.9	Sugar	13.60	-4.0
NZD/EUR	0.5944	-0.2			THB	31.95	+0.1		Nikkei	23,952	+1.0	27.3	Cotton	81.21	-0.6
NZD/GBP	0.5281	-0.2			KRW	1,063	-0.0		Shanghai	3,437	+0.8	10.5	Coffee	120.1	-1.8
NZD/JPY	80.58	-0.1			TWD	29.56	+0.1		ASX 200	6,049	-0.5	6.1	WM powder	3030.0	+0.2
NZD/CAD	0.9038	-0.4			PHP	50.50	+0.3		NZX 50	8,251	+0.5	16.8	Australian Futures		
NZ TWI	75.16	-0.3											3 year bond	97.8	-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				
USD	1.50	1.73	2.22	2.55	USD	2.56	0.01	NZGB 3 04/15/20	1.99	0.01	1 year	2.00	0.01		
AUD	1.50	1.80	2.05	2.89	AUD	2.77	0.00	NZGB 6 05/15/21	2.16	0.01	2 year	2.22	-0.00		
NZD	1.75	1.88	2.21	3.23	NZD	2.88	0.01	NZGB 5 1/2 04/15/23	2.42	0.01	5 year	2.73	0.00		
EUR	0.00	0.06	-0.12	0.95	GER	0.56	-0.03	NZGB 2 3/4 04/15/25	2.68	0.00	7 year	2.98	0.00		
GBP	0.50	0.52	0.85	1.38	GBP	1.30	-0.02	NZGB 4 1/2 04/15/27	2.88	0.01	10 year	3.23	-0.00		
JPY	-0.03	-0.03	0.05	0.29	JPY	0.08	0.01	NZGB 3 1/2 04/14/33	3.21	0.02	15 year	3.47	-0.00		
CAD	1.00	1.17	2.16	2.52	CAD	2.19	-0.00	NZGB 2 3/4 04/15/37	3.36	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 06:47

Source: Bloomberg

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