

18 April 2017

Events Round-Up

CH: Aggregate financing (CNY), Mar: 2120 vs. 1500 exp.
US: CPI ex food and energy (m/m%), Mar: -0.1 vs. 0.2 exp.
US: CPI ex food and energy (y/y%), Mar: 2.0 vs. 2.3 exp.
US: Retail sales ex auto & gas, Mar: 0.1 vs. 0.3 exp.
CH: Retail sales (y/y%), Mar: 10.9 vs. 9.7 exp.
CH: Fixed assets (y/y%), Mar: 9.2 vs. 8.8 exp.
CH: Industrial Production (y/y%), Mar: 7.6 vs. 6.3 exp.
CH: GDP (y/y%), Q1: 6.9 vs. 6.8 exp.
US: NAHB housing index, Apr: 68 vs. 70 exp.

Good Morning

Since our last daily report there has been much to digest. Ahead of the Easter break, markets were in a risk-off mode and we've seen that unwind as the new week begins, with no sign of war in Korea (yet) and strong China data yesterday supporting sentiment. The S&P500 is up 0.6% while the VIX index has slipped from above 16 to below 15. European markets were closed overnight.

The NZD is flat-to-up slightly on the crosses since the local close on Thursday. It is remarkable how little change there has been since the local close on Thursday, despite the abundance of news. The USD is softer, with losses sustained after Trump talked it down on Thursday and soft US data adding to the mix. On Thursday, Trump kicked off a weaker USD and lower Treasury rates after an interview with the WSJ was published in which he commented that the USD "is getting too strong". He left open the possibility of reappointing Fed Chair Yellen when her current term expires in February, saying that "I do like a low interest rate policy".

On Good Friday, very weak US CPI data – the first monthly fall in the core CPI since 2010 – and soft retail sales data worked further in the direction of a weaker USD and lower rates (theoretically, as the US market was closed at the time) as they add a question mark to the pace of Fed tightening this year. While it looked like a confluence of factors dragged the inflation figures down well below expectations, another soft reading next month and the market will seriously question whether the Fed will even tighten again this year. The probability of the Fed raising rates again as soon as June has slipped to 45% while just over one full rate hike is now priced in by December. The Atlanta Fed GDPNow Forecast for Q1 GDP has nudged down to just 0.5% annualised.

Geopolitical factors have remained on the radar. The US military detonated its largest ever non-nuclear bomb used to target Islamic State forces in Afghanistan. North Korea tested a ballistic missile which happened to fail, while Trump has upped his rhetoric on North Korea, with "all options" on the table, according to Vice President Pence. Trump has urged China's help, linking this to US-China trade relations. Trump tweeted "Why would I call China a currency manipulator when they are working with us on the North Korean problem? We will see what happens!"

China economic releases were strong, with aggregate financing, retail sales, industrial production and investment all much stronger than the market expected. China's Q1 GDP rose by 6.9% y/y its strongest rate in 18 months.

The net result of the geopolitical factors, soft US data, and China data is the NZD pushing up to as high as 0.7036 in the early hours this morning, but it has since softened to around 0.7010. Softer risk appetite over the last couple of weeks has seen our fair value estimate push down to around 0.7240.

The AUD has pushed up to around 0.76, sustaining the gains seen after strong employment data on Thursday. NZD/AUD is up to just over 0.9230, a similar level to Thursday's local close.

EUR/USD is up 0.3% to 1.0645, reflecting the soft USD and investors unperturbed by polls which show a close race for the first round of voting for the French Presidential election on Sunday. Support for the top four candidates ranges between 18-24%. If the polls are to be believed, then the far right's Le Pen and independent Macron should win the first round vote, with Macron decisively winning the second round vote. This would ultimately be EUR-positive. NZD/EUR is at 0.6585, after reaching 0.6620 yesterday during Asia's trading session, its highest level in six weeks.

USD/JPY continues to grind lower, a reflection of last week's lower risk appetite and the softer USD post-CPI. It sits this morning around 108.70, its lowest level since mid-November. NZD/JPY is little changed from Thursday's local close around 76.2. The same can be said for NZD/GBP at 0.5575.

US rates are lower at the short end of the curve, with the 2-year Treasury rate down 1bp and the market pricing out Fed tightening risk in the money markets. The 10-year rate has nudged up 1bp from Thursday's close to 2.25%,

after trading as low as 2.20% in the Asian session yesterday. The restrained move in Treasury rates, even after the soft CPI and retail sales data, reflects the significant move lower in rates over the past month. Recall that in mid-March the 10-year rate was as high at 2.63%.

On Thursday, NZ's yield curve flattened significantly, a reflection of the significant fall in US rates after Trump's interview in the WSJ noted earlier. The 10-year (Apr-2027) government bond yield closed the short week down 7.5bps to 2.93%, its lowest level since November. The 2-year swap rate remained at 2.27%, well anchored by steady monetary policy expectations, while 5-year and 10-year swap rates closed at fresh lows of 2.795% and 3.265% respectively.

Tonight sees the release of US housing and industrial production data, while the GDT dairy auction is expected

to show a small lift in pricing. Overall it's a fairly quiet week ahead on the global economic calendar. Locally, the focus will be on Q1 CPI data on Thursday.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA meeting minutes	Apr			13:30
NZ	GDT dairy auction avg. winning price			3005	
US	Housing starts ('000)	Mar	1260	1288	00:30
US	Building permits ('000)	Mar	1255	1213	00:30
US	Industrial production (m/m%)	Mar	0.4	0.0	01:15

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	0.7007	+0.1	0.7005	0.7036	CHF	1.0045	-0.1		S&P 500	2,344	+0.6	12.5	Oil (Brent)	55.34	-1.0
AUD	0.7589	+0.1	0.7585	0.7611	SEK	9.001	-0.4		Dow	20,583	+0.6	14.8	Oil (WTI)	52.61	-1.1
EUR	1.0642	+0.2	1.0615	1.0670	NOK	8.559	-0.3		Nasdaq	5,838	+0.6	18.0	Gold	1285.9	+0.0
GBP	1.2563	+0.3	1.2530	1.2596	HKD	7.772	-0.0		Stoxx 50	3,448	-0.6	12.7	HRC steel	655.0	+0.0
JPY	108.79	+0.1	108.25	108.79	CNY	6.880	-0.1		FTSE	7,328	-0.3	15.1	CRB	187.4	-0.2
CAD	1.3310	-0.1			SGD	1.398	-0.1		DAX	12,109	-0.4	20.0	Wheat Chic.	435.8	-1.6
NZD/AUD	0.9233	+0.0			IDR	13,286	+0.1		CAC 40	5,071	-0.9	12.4	Sugar	16.47	-0.8
NZD/EUR	0.6584	-0.2			THB	34.29	-0.3		Nikkei	18,355	+0.1	12.8	Cotton	77.03	+1.9
NZD/GBP	0.5577	-0.2			KRW	1,138	-0.2		Shanghai	3,222	-0.7	6.2	Coffee	143.5	+1.6
NZD/JPY	76.23	+0.3			TWD	30.35	-0.1		ASX 200	5,890	-0.7	15.1	WM powder	3140.0	+0.3
NZ TWI	76.21	+0.1			PHP	49.58	+0.1		NZX 50	7,230	-0.3	5.9	Australian Futures		
													3 year bond	98.18	-0.04
													10 year bond	97.45	-0.07
Interest Rates					NZ Government Bonds				NZ Swap Yields						
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	1.00	1.16	1.52	2.21	USD	2.25	0.01	NZGB 3 04/15/20	2.225	0.00	1 year	2.068	+0.00		
AUD	1.50	1.77	1.86	2.81	AUD	2.47	0.00	NZGB 6 05/15/21	2.335	0.00	2 year	2.270	+0.00		
NZD	1.75	1.96	2.27	3.27	NZD	2.93	0.00	NZGB 5 1/2 04/15/23	2.625	0.00	5 year	2.795	+0.00		
EUR	0.00	0.06	-0.16	0.68	GER	0.19	0.00	NZGB 2 3/4 04/15/25	2.870	0.00	7 year	3.033	+0.00		
GBP	0.25	0.34	0.55	1.08	GBP	1.04	0.00	NZGB 4 1/2 04/15/27	2.930	0.00	10 year	3.265	+0.00		
JPY	-0.05	0.01	0.02	0.20	JPY	0.01	-0.00	NZGB 3 1/2 04/14/33	3.245	0.00	15 year	3.550	+0.00		
CAD	0.50	1.17	1.10	1.79	CAD	1.51	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 07:01

Source: Bloomberg

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