

18 April 2018



Events Round-Up

NZ: REINZ House Sales (y/y%), Mar: -9.9% vs. 1.2% prev.

CH: GDP (y/y%), Q1: 6.8% vs. 6.8% exp.

CH: Industrial production (y/y%), Mar: 6% vs. 6.3% exp.

UK: Unemployment rate, Feb: 4.2% vs. 4.3% exp.

UK: Average weekly earnings (ex-bonus, y/y%), Feb: 2.8% vs. 2.8% exp.

NZ: Global Dairy Trade whole milk powder (\$/mt): \$3,311 vs. \$3,278 prev.

US: Housing starts, Mar: 1,319k vs. 1,266k exp.

Good Morning

US equities increased again overnight after more positive earnings reports from US corporates, and as US-China trade tensions moved off the headlines for a day. The USD is mixed, with the NZD again being one of the underperformers. Meanwhile, the US yield curve flattened again, drawing a response from incoming NY Fed President John Williams.

The S&P500 is up more than 1% on the day, and at one month highs, with the NASDAQ up almost 2%. The latter has been boosted by Netflix's quarterly earnings results (reported after the market close yesterday), which showed a big increase in net income and subscriber growth. Johnson and Johnson and Goldman Sachs were also among those to beat analysts' earnings expectations overnight, but while this has boosted broader market sentiment, it hasn't done much for either company's share price (both are down on the day).

On the trade front, China announced plans to ease the limits on foreign investment in its auto and aircraft sectors, as previously foreshadowed by President Xi. With US-China trade tensions taking a back seat for a day, the VIX dropped overnight to just below 15, and is almost back to the levels seen before the equity market correction in early February (which triggered a shift to a higher volatility regime).

The 10 year Treasury yield is slightly lower on the day, to 2.81%, despite the increase in risk sentiment. The 2 year yield in contrast is 1bp higher, aided by better than expected US housing data. Consequently, the US yield curve flattened again, with the spread between the 2 year and 10 year rate falling to just 42bps, its flattest level since

2007. The flatter yield curve has caught the attention of Fed officials as well as the market. Overnight, incoming NY Fed President John Williams said *"the flattening of the yield curve that we've seen is so far a normal part of the process, as the Fed is raising interest rates...I don't see the signs yet of an inverted yield curve"*. He did caution though that an inverted curve *"is a powerful signal of recessions"* (an inverted US yield curve has predicted almost every US recession since 1950).

It's worth pointing out that the market "prices in" further flattening of the yield curve over the coming few years. The market expects the 2s10s Treasury curve to be around 20bps in a year's time and the 2s10s swap curve is priced to be almost zero in a year's time. The question market commentators will be asking themselves is whether the Fed (and other foreign central bank) QE has distorted the signal from the US yield curve this time around, by depressing longer-term yields.

In FX markets, the USD is marginally stronger. US Treasury Secretary Mnuchin tried to row back on Trump's comments yesterday that China and Russia were *"playing the FX devaluation game"* by saying it was merely a *"warning shot"* not to engage in FX devaluation going forward. The EUR has fallen back from above 1.24 after a weaker German ZEW survey, the latest in a string of weaker than expected economic numbers out of Europe (which may be partly weather-related).

The GBP made a new post-Brexit high overnight, although it has since eased back to below 1.43. The UK labour market report showed lower than expected earnings growth (although the less volatile ex-bonuses wage measure was on expectations), which coincided with the intraday fall in GBP. The market prices a greater than 80% chance that the BoE will raise rates at its meeting next month, which would be the Bank's second rate hike this cycle.

The NZD is again one of the underperformers overnight, although at 0.7340 it remains towards the upper end of its trading range this year. The Global Dairy Trade auction overnight showed a 0.9% increase in whole milk powder price, which provided a brief 10 pip boost to the NZD. The focus shifts to CPI, released tomorrow, and given signs that speculative positioning in the NZD seems to have shifted net long, we think the NZD is probably vulnerable to a downside surprise.

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Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|--|--------|-------|-------|-------|
| UK | CPI Core YoY | Mar | 2.5 | 2.4 | 20:30 |
| EC | CPI Core YoY | Mar F | 1 | 1 | 21:00 |
| CA | Bank of Canada Rate Decision | 43191 | 1.25 | 1.25 | 02:00 |
| US | U.S. Federal Reserve Releases Beige Book | | | | 06:00 |

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 | 0.7341 | -0.3 | 0.7327 | 0.7354 | CHF | 0.9660 | +0.6 | | S&P 500 | 2,703 | +1.0 | 15.1 | Oil (Brent) | 71.57 | +0.2 |
| AUD | 0.7773 | -0.1 | 0.7760 | 0.7791 | SEK | 8.408 | -0.1 | | Dow | 24,781 | +0.9 | 20.1 | Oil (WTI) | 66.52 | +0.4 |
| EUR | 1.2366 | -0.1 | 1.2336 | 1.2414 | NOK | 7.768 | -0.1 | | Nasdaq | 7,281 | +1.7 | 24.3 | Gold | 1350.3 | -0.0 |
| GBP | 1.4294 | -0.3 | 1.4286 | 1.4377 | HKD | 7.850 | +0.0 | | Stoxx 50 | 3,478 | +1.1 | 0.9 | HRC steel | 855.0 | -0.5 |
| JPY | 106.99 | -0.1 | 106.88 | 107.21 | CNY | 6.283 | +0.1 | | FTSE | 7,226 | +0.4 | -1.4 | CRB | 199.3 | -0.1 |
| CAD | 1.2544 | -0.2 | | | SGD | 1.310 | -0.0 | | DAX | 12,586 | +1.6 | 3.9 | Wheat Chic. | 499.3 | +0.3 |
| NZD/AUD | 0.9444 | -0.2 | | | IDR | 13,766 | -0.1 | | CAC 40 | 5,354 | +0.6 | 5.6 | Sugar | 11.82 | -2.8 |
| NZD/EUR | 0.5936 | -0.2 | | | THB | 31.20 | -0.0 | | Nikkei | 21,848 | +0.1 | 18.6 | Cotton | 82.95 | -0.4 |
| NZD/GBP | 0.5136 | +0.0 | | | KRW | 1,067 | -0.6 | | Shanghai | 3,067 | -1.4 | -4.1 | Coffee | 115.9 | -0.6 |
| NZD/JPY | 78.54 | -0.4 | | | TWD | 29.36 | -0.2 | | ASX 200 | 5,842 | +0.0 | 0.1 | Wheat powder | 3245.0 | -0.9 |
| NZD/CAD | 0.9209 | -0.5 | | | PHP | 52.12 | +0.1 | | NZX 50 | 8,345 | -0.7 | 15.4 | Australian Futures | | |
| NZ TWI | 75.43 | -0.3 | | | | | | | | | | | 3 year bond | 97.75 | 0.00 |
| | | | | | | | | | | | | | 10 year bond | 97.25 | 0.01 |

| 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 | Last | Last | | | |
| USD | 1.75 | 2.36 | 2.68 | 2.85 | USD | 2.81 | -0.01 | NZGB 6 05/15/21 | 2.10 | -0.00 | 1 year | 2.17 | -0.02 |
| AUD | 1.50 | 2.08 | 2.16 | 2.92 | AUD | 2.76 | 0.02 | NZGB 5 1/2 04/15/23 | 2.38 | -0.00 | 2 year | 2.32 | -0.01 |
| NZD | 1.75 | 2.04 | 2.32 | 3.19 | NZD | 2.83 | -0.00 | NZGB 2 3/4 04/15/25 | 2.64 | -0.00 | 5 year | 2.74 | -0.02 |
| EUR | 0.00 | 0.06 | -0.15 | 0.95 | GER | 0.51 | -0.02 | NZGB 4 1/2 04/15/27 | 2.83 | -0.00 | 7 year | 2.96 | -0.01 |
| GBP | 0.50 | 0.79 | 1.15 | 1.55 | GBP | 1.44 | -0.03 | NZGB 3 04/20/29 | 3.02 | -0.00 | 10 year | 3.19 | -0.02 |
| JPY | -0.06 | -0.04 | 0.05 | 0.26 | JPY | 0.05 | -0.00 | NZGB 3 1/2 04/14/33 | 3.21 | -0.00 | 15 year | 3.44 | -0.02 |
| CAD | 1.25 | 1.17 | 2.27 | 2.61 | CAD | 2.24 | -0.04 | NZGB 2 3/4 04/15/37 | 3.42 | -0.00 | | | |

* 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 06:43

Source: Bloomberg

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