RESEARCH

Markets Today

18 May 2018

Events Round-Up

NZ: PPI Output (q/q%), Q1: 0.2 vs. 1.0 prev.

AU: Employment change ('000), Apr: 22.6 vs. 20.0 exp.

AU: Unemployment rate (%), Apr: 5.6 vs. 5.5 exp.

US: Philly Fed business outlook, May: 34.4 vs. 21.0 exp.

Good Morning

US bond yields continue to nudge higher, the USD has been well supported overnight and the NZD is down slightly on most crosses.

Market movements have been pretty modest over the past 24 hours. US bond yields continue to track higher, with the 10-year rate reaching a high of 3.12% during the Asian trading session. Some consolidation has taken place during the US session and it currently sits at 3.11%, up 1bp from the NZ close.

The only data release of note overnight was the Philadelphia Fed manufacturing index, which blasted up through expectations. The new orders component reached a 45-year high while the prices received component reached a 29-year high. It adds to the flavour of US economic data doing better than other regions at present, alongside a positive inflation dynamic. The recent surge in oil prices has contributed to positive pricing indicators across various business surveys. Brent crude oil broke up through the $80 mark for the first time since 2014, reaching a high of $80.50 before pulling back to $79.40, now flat for the day.

While it's tempting to suggest that higher US rates have helped support the USD overnight, European rates have actually increased by more, with 10-year UK gilts up 6bps and French and German rates up 3bps. Early in the session, Italian rates continued to surge ahead, before closing back down and flat for the session. Italy's Five Star and Northern League have agreed on a final draft coalition agreement, which includes a host of radical proposals (a 15% flat tax; scrapping pension age reform; anti-vaccination; tighter EU laws on migration and not counting ECB-held debt in debt/GDP ratios). With this policy backdrop, Italy is likely to remain on the market's watch-list over the months ahead, being a potential source of concern for EUR. EUR has settled down close to 1.18, against a backdrop of broadly based support for the USD.

GBP has been a bit choppy, moving higher after the Telegraph reported yesterday that the UK government was prepared to stay tied to the customs union beyond 2021 as part of a last resort backstop to the Irish border issue. This move was mostly reversed when PM May's office denied the report and May reiterated that the UK is leaving the customs union and is intent on negotiating a "customs partnership". Still, the net result has been a slightly stronger GBP – one of the few majors to outperform the USD – and higher gilt yields mentioned above.

The NZD is down 0.3% for the day to 0.6875, with gains during the local trading session more than wiped out overnight as sentiment for the USD turned around. The NZ Budget confirmed much of what we knew already – that NZ's fiscal accounts remain in great shape, with the government projecting modestly rising operating surpluses and lower net debt to just below the 20% of GDP target. While it looked like the NZD caught a bid after the announcement and almost reached 0.6940, this coincided with a particular period of general USD weakness. The growth dividend, winding back the previous government's tax cuts and accounting for a more moderate reduction in debt is allowing the new coalition government to achieve its pre-election spending plans while at the same time keeping NZ's fiscal accounts in rude heath.

The government increased its bond tender programme over the next few years from $7b to $8b per annum, using $2b of that to reduce outstanding Treasury bills. Public debt optics will look better than they are to the extent that Housing NZ (government-owned) will be allowed to issue $2.9b of term debt over the next four years. The reaction in the rates market was fairly muted, but supported a modest steepening of the yield curve.

Australia's unemployment rate ticked higher, against the flat result the market expected, but against a backdrop of solid employment growth and higher labour force participation. Following on from underwhelming wage data, it solidifies the view that the RBA will be in no hurry to tighten policy. The impact on the AUD was only passing. While both the NZD and AUD are weaker overnight, the latter has outperformed a touch, seeing the NZD/AUD cross down to 0.9155.

While NZD crosses are generally slightly lower for the day, NZD/JPY is holding up just above the 76 mark, as the higher global bond yield dynamic reduces the appeal of JPY.

In other news, NAFTA talks continue as a deadline passes to allow enough time to get legislation in place before the election cycle becomes a constraint on any possible deal. Negotiators say that after 9 months of formal discussions a series of challenges remain. USD/CAD is up slightly to just above the 1.28 mark. North Korea has offered another tirade against South Korea, clearly miffed that military exercises alongside the US continue. The WSJ reports that Pyongyang's latest statement slammed South Korea's liberal government as "an ignorant and incompetent group devoid of the elementary sense of the present situation". The White House is still pushing ahead for the US-North Korea summit next month but concerns about the wisdom of a meeting rise with every statement from Pyongyang.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
JN	CPI ex fresh food (y/y%)	Apr	0.8	0.9	11:30
JN	CPI ex fresh food, energy (y/y%)	Apr	0.4	0.5	11:30
CA	CPI (y/y%)	Apr	2.3	2.3	00:30

Source: Bloomberg, BNZ

Foreign Exchange

Indicative overnight ranges (*)

	Last	% Day	Low	High
NZD	0.6875	-0.3	0.6873	0.6910
AUD	0.7509	-0.1	0.7498	0.7545
EUR	1.1800	-0.1	1.1777	1.1835
GBP	1.3511	+0.2	1.3475	1.3566
JPY	110.74	+0.3	110.24	110.86
CAD	1.2802	+0.1		
NZD/AUD	0.9156	-0.2		
NZD/EUR	0.5826	-0.3		
NZD/GBP	0.5088	-0.5		
NZD/JPY	76.13	+0.0		
NZD/CAD	0.8801	-0.2		
NZ TWI	72.36	-0.2		

Other FX

	Last	% Day
CHF	1.0012	+0.0
SEK	8.743	+0.4
NOK	8.123	+0.5
HKD	7.850	-0.0
CNY	6.367	-0.1
SGD	1.342	+0.2
IDR	14,058	-0.3
THB	32.10	+0.2
KRW	1,081	+0.3
TWD	29.90	+0.1
PHP	52.28	-0.1

Equities

Major Indices

	Last	% Day	% Year
S&P 500	2,720	-0.1	15.4
Dow	24,712	-0.2	19.9
Nasdaq	7,385	-0.2	22.9
Stoxx 50	3,592	+0.8	0.2
FTSE	7,788	+0.7	3.8
DAX	13,115	+0.9	3.8
CAC 40	5,622	+0.4	5.7
Nikkei	22,838	+0.5	16.8
Shanghai	3,154	-0.5	2.1
ASX 200	6,094	-0.2	6.2
NZX 50	8,603	+0.6	16.7

Commodities**

Price

	Last	Net Day
Oil (Brent)	79.40	+0.2
Oil (WTI)	71.56	+0.1
Gold	1290.7	-0.1
HRC steel	882.0	+0.0
CRB	203.6	-0.1
Wheat Chic.	513.5	+0.6
Sugar	11.56	-0.4
Cotton	85.03	+0.7
Coffee	117.9	+0.6
WM powder	3205.0	-1.1

Australian Futures

	Last	Net Day
3 year bond	97.71	-0.02
10 year bond	97.08	-0.01

Interest Rates

	Rates Cash	Rates 3Mth	Swap Yields 2 Yr	Swap Yields 10 Yr
USD	1.75	2.33	2.81	3.14
AUD	1.50	1.92	2.14	3.07
NZD	1.75	2.01	2.24	3.28
EUR	0.00	0.06	-0.12	1.08
GBP	0.50	0.63	1.06	1.70
JPY	-0.06	-0.02	0.06	0.29
CAD	1.25	1.17	2.40	2.87

Benchmark 10 Yr Bonds

	Last	Net Day
USD	3.11	0.01
AUD	2.92	0.04
NZD	2.84	0.04
GER	0.64	0.03
GBP	1.56	0.06
JPY	0.06	0.01
CAD	2.52	0.02

NZ Government Bonds

	Last	
NZGB 6 05/15/21	2.04	0.00
NZGB 5 1/2 04/15/23	2.36	0.02
NZGB 2 3/4 04/15/25	2.65	0.04
NZGB 4 1/2 04/15/27	2.84	0.04
NZGB 3 04/20/29	3.02	0.04
NZGB 3 1/2 04/14/33	3.20	0.05
NZGB 2 3/4 04/15/37	3.36	0.05

NZ Swap Yields

	Last	
1 year	2.07	0.01
2 year	2.24	0.02
5 year	2.74	0.02
7 year	3.00	0.03
10 year	3.26	0.03
15 year	3.52	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 06:54

Source: Bloomberg

Contact Details

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Nick Smyth
Interest Rate Strategist
+64 4 924 7653

National Australia Bank

Ray Attrill
Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Senior FX Strategist
+61 2 9293 7109

Gavin Friend
Senior Market Strategist
+44 20 7710 1588

Skye Masters
Head of Fixed Income Research
+61 2 9295 1196

Alex Stanley
Senior Interest Rate Strategist
+61 2 9237 8154