

19 April 2017

## Events Round-Up

- NZ: GDT dairy auction avg. winning price: +3.1%
- US: Housing starts ('000), Mar: 1215 vs. 1250 exp.
- US: Building permits ('000), Mar: 1260 vs. 1250 exp.
- US: Industrial production (m/m%), Mar: 0.5 vs. 0.5 exp.

## Good Morning

The big news last night was the surprise call for an early UK election by PM May. This has seen GBP rocket ahead. The USD remains soft, while UST yields fall to fresh lows.

GBP/USD is up over 2% to 1.2840 and has traded in a wide range, with a spike above 1.29 and a dip down to 1.2516, as the market reacted to the call for an early-June election. While the initial market reaction was a weaker GBP, the currency has surged ahead since. Commentators see an early election as a positive move that will see May's government increase its majority, provide more negotiating power in Brexit talks and decrease the probability of an exit with no EU trade deal. In a market that has been significantly short GBP for some time, this announcement was a shock and no doubt the move higher reflects some short covering, which could continue in the weeks ahead. NZDGBP is down to 0.5480, its lowest level since November's flash crash.

There has been a spillover effect, with the stronger GBP supporting EUR. EUR/USD is up 0.8% to 1.0730 but an added factor has been further general USD weakness. After our daily report went to press yesterday, US Treasury Secretary Mnuchin gave an interview to the FT. He confirmed that Trump's tax reforms package would be delayed beyond the original target of August, and in response to doubts over support for the border-adjusted tax plan he said that there may be other ways of raising \$1 trillion. The government would be looking for stronger growth to deliver higher tax revenue, a rather optimistic assumption.

There has also likely been some follow-through reaction to the USD from Good Friday's very weak US CPI data. The combination of delayed fiscal stimulus and weak inflation sees Fed rate hikes continue to be priced out of the curve. The probability of a June rate hike is now down to 40%, while just one full rate hike is now priced by December. This dynamic has seen the US 2-year Treasury rate fall 4bps to 1.16%. The 10-year rate has fallen fairly steadily since Asia trading began and is down 7bps to 2.18%. Weaker equity markets, driven by some weaker earning

announcements from the likes of Goldman Sachs and Johnson and Johnson, have supported the move lower in Treasury yields.

The soft USD has helped the NZD make some further gains and it currently trades close to 0.7040, at its highs for the session. The latest GDT dairy auction showed a 3.1% rise in average prices and whole milk powder prices up 3.5%, in line with our expectations. We think that the NZD can maintain a 0.70 handle over coming months and the near-term risk is for a further push higher towards our short-term fair value model estimate of just above 0.72. That said, geopolitical risks continue to linger in the background and that remains a key source of uncertainty about the outlook.

The AUD hasn't joined the ride higher as very weak iron ore pricing continues, which sees AUD/USD down to 0.7560. The Qingdao iron ore benchmark fell by 4.6% yesterday, taking the cumulative fall since peaking in February to 33%. As regular readers will know, we were puzzled with AUD strength earlier this year at a time when the NZD was getting slammed. Fundamentals appear to be more in play now and this sees NZD/AUD up through 0.93 and we see further upside ahead, with an end-June target of 0.95.

The soft USD and lower Treasury yields has helped push USD/JPY down to 108.50. NZD/JPY is a touch higher at 76.4.

Local rates trading yesterday was quiet, with traders still in a holiday mode. Swap rates were up 2-3bps across the curve, playing catch-up to the Asian trading session the previous day. We are likely to see lower rates today on the back of lower US treasury yields. The economic calendar ahead is light for the next 24 hours and locally the focus of attention will be Thursday's Q1 CPI release, which is expected to show a significant rise in inflation. More on that tomorrow.

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## Coming Up

	Period	Cons.	Prev.	NZT
NZ Services PMI	Mar		58.8	10:30
EC Trade balance (€bn)	Feb	18.5	15.7	21:00
EC CPI (y/y%)	Mar F	1.5	2.0	21:00
EC CPI core (y/y%)	Mar F	0.7	0.7	21:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities					Commodities**						
Indicative overnight ranges (*)				Other FX		Major Indices			Price							
	Last	% Day	Low	High		Last	% Day			Last	Net Day					
NZD	0.7038	+0.4	0.7006	0.7040	CHF	0.9962	-0.8	S&P 500	2,343	-0.3	11.9	Oil (Brent)	54.98	-0.7		
AUD	0.7558	-0.4	0.7534	0.7563	SEK	8.964	-0.4	Dow	20,528	-0.5	14.0	Oil (WTI)	52.49	-0.3		
EUR	1.0731	+0.8	1.0641	1.0733	NOK	8.508	-0.6	Nasdaq	5,847	-0.2	17.9	Gold	1291.7	+0.2		
GBP	1.2849	+2.3	1.2516	1.2905	HKD	7.775	+0.0	Stoxx 50	3,410	-1.1	11.4	HRC steel	655.0	+0.0		
JPY	108.50	-0.4	108.35	109.16	CNY	6.882	+0.0	FTSE	7,148	-2.5	12.3	CRB	186.5	-0.4		
CAD	1.3381	+0.5			SGD	1.396	-0.1	DAX	12,000	-0.9	18.9	Wheat Chic.	437.0	+0.1		
NZD/AUD	0.9312	+0.8			IDR	13,298	+0.1	CAC 40	4,990	-2.1	10.6	Sugar	16.70	+1.4		
NZD/EUR	0.6559	-0.4			THB	34.34	+0.1	Nikkei	18,419	+0.3	9.2	Cotton	76.82	-0.1		
NZD/GBP	0.5477	-1.8			KRW	1,142	+0.4	Shanghai	3,197	-0.8	5.1	Coffee	145.6	+1.4		
NZD/JPY	76.36	+0.0			TWD	30.40	+0.2	ASX 200	5,837	-0.9	12.5	WM powder	3140.0	+0.0		
NZ TWI	76.51	+0.3			PHP	49.66	+0.2	NZX 50	7,234	+0.1	5.2	<b>Australian Futures</b>				
<b>Interest Rates</b>											3 year bond			98.21	0.00	
<b>Rates</b>		<b>Swap Yields</b>			<b>Benchmark 10 Yr Bonds</b>		<b>NZ Government Bonds</b>			<b>NZ Swap Yields</b>			10 year bond		97.51	0.05
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last				Last			
USD	1.00	1.16	1.49	2.14	USD	2.18	-0.07	NZGB 3 04/15/20	2.265	0.04	1 year	2.083	+0.02			
AUD	1.50	1.77	1.81	2.73	AUD	2.49	0.01	NZGB 6 05/15/21	2.375	0.04	2 year	2.293	+0.02			
NZD	1.75	1.98	2.29	3.29	NZD	2.97	0.04	NZGB 5 1/2 04/15/23	2.665	0.04	5 year	2.818	+0.02			
EUR	0.00	0.06	-0.16	0.66	GER	0.16	-0.03	NZGB 2 3/4 04/15/25	2.910	0.04	7 year	3.058	+0.02			
GBP	0.25	0.34	0.54	1.04	GBP	1.01	-0.03	NZGB 4 1/2 04/15/27	2.970	0.04	10 year	3.293	+0.03			
JPY	-0.05	0.01	0.02	0.20	JPY	0.01	0.00	NZGB 3 1/2 04/14/33	3.280	0.04	15 year	3.578	+0.03			
CAD	0.50	1.17	1.06	1.72	CAD	1.44	-0.08									

\* 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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