

19 April 2018



Events Round-Up

UK: Headline CPI (y/y%), Mar: 2.5 vs. 2.7% prev.

UK: Core CPI (y/y%), Mar: 2.3 vs. 2.5% prev.

EU: Core CPI (y/y%), Mar (final): 1% vs. 1% exp.

CA: Bank of Canada cash rate, Apr: 1.25% vs. 1.25% exp.

Good Morning

Most market moves have been reasonably modest overnight, although US equities and bond yields have pushed a little higher. Oil prices rose to a new, post-2014 high. The CAD and GBP have fallen after a dovish Bank of Canada statement and lower than expected CPI respectively. The NZD has again been one of the underperformers in FX markets ahead of CPI today, and NZD/AUD has eased back towards 0.94.

The S&P500 is 0.3% higher overnight, with energy stocks leading the way on the back of higher oil prices. Morgan Stanley was the latest bank to beat earnings estimates, adding to positive sentiment (although the banking sub-index was down on the day, underperforming the broader market again). There was little market impact after Trump confirmed that CIA director Pompeo secretly met Kim Jong-Un ahead of a planned summit between the two leaders, with the market having shifted attention away from North Korea (towards US-China trade tensions) some time ago.

Oil prices rose to a new post-2014 high, with Brent crude oil up 2% to \$73.25 after the US reported a drawdown in oil inventories last week. According to the IEA, oil inventories are on track to fall below the 5 year average in the next few months amid the ongoing supply cuts in place by OPEC and Russia and still robust demand. Declining inventory levels make the market more vulnerable to possible supply disruptions in the Middle East and Venezuela. Ahead of a summit this week between OPEC and Russia, the UAE energy minister noted that he was worried about a lack of investment in global energy production and described shale oil producers as their "partners" in supply. It doesn't seem like OPEC has any intention of abandoning the supply cuts before they are due to roll of at the end of the year, even though prices have recovered substantially.

Besides boosting energy stocks, the recent rise in oil prices has helped boost the US high yield (i.e. "junk")

bond market, of which energy producers are a reasonable proportion. US high yield spreads are approaching their tightest levels since before the GFC. Market expectations of inflation have also risen, with the 10 year breakeven inflation rate rising to 2.15%, its highest level since 2014. This has helped boost US Treasury yields, with the 10 year rate up around 3bps to 2.85%. The Fed's Beige Book released a short while ago reported "only modest" wage increases despite a tight labour market and noted that businesses had (unsurprisingly) expressed concern about tariffs.

Despite the move higher in commodities, the CAD is the weakest currency overnight after a less hawkish than expected Monetary Policy Report from the Bank of Canada. The BoC kept rates unchanged, as expected, and said it would "*remain cautious with respect to future policy adjustments*". The BoC boosted its estimates of potential growth, a nod to Governor Poloz's previous comments that the economy can sustain somewhat stronger growth without generating higher inflation. Poloz said higher interest rates will be warranted over time, but didn't go out of his way to suggest the next move was imminent and specifically mentioned trade conflicts and geopolitical risks; the market now prices a May rate rise as a 33% chance with July around 80% priced.

The GBP is the other underperformer in FX markets after lower than expected UK CPI (both headline and core measures). The post-Brexit increase in imported inflation seems to be waning, although with the unemployment rate at 4.2% and a transition deal between the UK and EU in sight, the market still attaches around an 80% chance the BoE will hike rates next month, to 0.75%.

The EUR is largely unchanged, just below 1.24, with the final reading of Eurozone core inflation matching expectations at 1%. News overnight that Germany's public sector workers had agreed to wage increases of over 3% over the next few years will likely please the ECB, given core inflation remains well below its target.

The NZD fell to just above 0.73 in the London morning, before recovering to around 0.7325 now. CPI released this morning will be a major focus. We are looking for a 0.4% increase in headline CPI on the quarter, is in line with the median estimate among economists. NZD/AUD has drifted down to just above 0.94, with the AUD likely benefiting from recent strength in oil and metals prices.

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Coming Up

	Period	Cons.	Prev.	NZT
US Fed's Dudley Speaks on Economic Outlook				07:00
NZ CPI QoQ	1Q	0.4	0.1	10:45
NZ CPI YoY	1Q	1.1	1.6	10:45
AU Employment Change	Mar	20	17.5	13:30
AU Unemployment Rate	Mar	5.5	5.6	13:30
AU NAB Business Confidence	1Q		6	13:30
UK Retail Sales Ex Auto Fuel YoY	Mar	1.4	1.1	20:30
US Philadelphia Fed Business Outloc	Apr	21	22.3	00:30

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	0.7323	-0.3	0.7304	0.7344	CHF	0.9683	+0.2	S&P 500	2,715	+0.3	15.9	Oil (Brent)	73.60	+2.8
AUD	0.7783	+0.2	0.7744	0.7798	SEK	8.397	-0.1	Dow	24,775	+0.0	20.7	Oil (WTI)	68.60	+3.1
EUR	1.2376	+0.0	1.2342	1.2397	NOK	7.764	+0.1	Nasdaq	7,310	+0.4	25.0	Gold	1353.2	+0.2
GBP	1.4203	-0.6	1.4174	1.4315	HKD	7.850	+0.0	Stoxx 50	3,491	+0.4	2.4	HRC steel	856.0	-0.1
JPY	107.27	+0.3	107.10	107.39	CNY	6.274	-0.1	FTSE	7,317	+1.3	2.4	CRB	203.0	+1.8
CAD	1.2629	+0.6			SGD	1.310	-0.1	DAX	12,591	+0.0	4.9	Wheat Chic.	507.0	+1.6
NZD/AUD	0.9409	-0.5			IDR	13,776	+0.1	CAC 40	5,380	+0.7	7.8	Sugar	11.91	+0.6
NZD/EUR	0.5917	-0.3			THB	31.20	-0.0	Nikkei	22,158	+1.4	20.2	Cotton	82.61	-0.6
NZD/GBP	0.5156	+0.3			KRW	1,069	+0.1	Shanghai	3,091	+0.8	-2.5	Coffee	117.2	+1.0
NZD/JPY	78.55	-0.0			TWD	29.36	-0.0	ASX 200	5,861	+0.3	1.0	WM powder	3280.0	+0.9
NZD/CAD	0.9248	+0.4			PHP	52.10	-0.0	NZX 50	8,369	+0.3	15.9	Australian Futures		
NZ TWI	75.23	-0.3										3 year bond	97.71	-0.02
												10 year bond	97.20	-0.04
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				
USD	1.75	2.36	2.71	2.90	USD	2.87	0.04	NZGB 6 05/15/21	2.10	0.00	1 year	2.17	-0.00	
AUD	1.50	2.07	2.18	2.95	AUD	2.75	-0.02	NZGB 5 1/2 04/15/23	2.38	0.00	2 year	2.31	-0.01	
NZD	1.75	2.05	2.31	3.16	NZD	2.82	-0.01	NZGB 2 3/4 04/15/25	2.63	-0.01	5 year	2.73	-0.01	
EUR	0.00	0.06	-0.15	0.96	GER	0.53	0.02	NZGB 4 1/2 04/15/27	2.82	-0.01	7 year	2.94	-0.02	
GBP	0.50	0.79	1.13	1.54	GBP	1.41	-0.02	NZGB 3 04/20/29	3.00	-0.02	10 year	3.16	-0.02	
JPY	-0.06	-0.04	0.05	0.25	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.20	-0.02	15 year	3.41	-0.02	
CAD	1.25	1.17	2.27	2.66	CAD	2.28	0.03	NZGB 2 3/4 04/15/37	3.40	-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 07:15

Source: Bloomberg

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