

19 February 2018



Events Round-Up

NZ: BNZ manufacturing PMI, Jan: 55.6 vs. 51.2 prev.
UK: Retail sales ex auto fuel (y/y%), Jan: 1.5 vs. 2.4 exp.
US: Housing starts ('000), Jan: 1326 vs. 1234 exp.
US: Building permits ('000), Jan: 1396 vs. 1300 exp.
US: U. of Mich. cons. sentiment, Feb: 99.9 vs. 95.5 exp.

Good Morning

Last week ended on a fairly uneventful note, with modest changes for NZD crosses. In Friday's overnight trading session, the USD staged a broadly-based recovery, US 10-year Treasury yields nudged lower, while US equities were flat.

The S&P500 traded higher for most of the session, up 0.8% at one stage, before retreating in the last few hours to close barely higher, although the score-keeper will show a sixth consecutive daily increase and a strong 4.3% weekly increase.

There were no key market moving events, although the retreat in US equities followed a report by Special Counsel Mueller which revealed the methods Russians used to interfere with US politics, although Trump's election campaign was not implicated. The US Commerce Department recommended that the US impose tariffs or quotas on imports of aluminium and steel for reasons of national security. The report goes to President Trump to make a decision. The concern is that imposing tariffs will result in retaliatory measures from other countries, triggering an economically harmful trade war.

On the economic front, US consumer sentiment in February was much stronger than expected, with the impact of tax cuts and strong income growth seeming to offset the increased equity market volatility. Housing starts and permits were also stronger than expected. UK economic data continued to underwhelm, with sluggish retail sales growth.

During Friday's NZ trading session, the USD remained under pressure for no particular reason other than it's

been a prevalent theme this year. This selling pressure evaporated soon after the NZ close, seeing the various USD indices recover by 0.8-0.9% by the close of the week, NY time, perhaps a reflection of short-term covering ahead of the US long-weekend. The NZD got close to, but failed to breach, the 0.7440 level of technical resistance before peeling off to close the week around 0.7390.

The NZD was modestly higher on most of the crosses. NZD/AUD continued to drift higher, closing the week just under 0.9350. Of the majors, EUR was the weakest, closing near 1.24 and NZD/EUR up to its highest level this month, up through 0.5955. For the UK, in a speech, the EU's Chief Brexit negotiator Barnier noted that talks were pointing to an orderly Brexit but he also argued how the British government's positions on trade, customs and regulatory independence "close the door" on any prospect of a preferential relationship with the EU after Brexit. GBP's move for the session was almost entirely USD-driven, seeing GBP close down 0.5% to 1.4025.

The US Treasuries curve flattened again, with the 2-year rate up less than 1bp to 2.19% and the 10-year rate down 3bps to 2.87%. Global forces helped nudge NZ 10-year government and swap rates by 2bps to 2.99% and 3.29% respectively.

The day ahead should be a quiet one, with the US on holiday tonight and a sparse economic calendar. The economic calendar is fairly light for the whole week, with mainly second-tier data releases. We'll be most interested in the Fed's minutes from its last FOMC meeting due Thursday morning NZ time. These will be scrutinised to judge whether the next meeting might tip the projections towards four, rather than three, rate hikes. And we'll be interested in any discussion around the US dollar and how that affects the outlook. A number of FOMC members are also on the speaking circuit this week.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ	BNZ Performance of services index	Jan	56	10:30

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)				Other FX			Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7390	-0.3	0.7378	0.7437	CHF	0.9270	+0.5		S&P 500	2,732	+0.0	16.2	Oil (Brent)	64.84	+0.8
AUD	0.7905	-0.5	0.7903	0.7988	SEK	7.969	+0.4		Dow	25,219	+0.1	22.3	Oil (WTI)	61.68	+0.6
EUR	1.2406	-0.8	1.2429	1.2555	NOK	7.781	+0.2		Nasdaq	7,239	-0.2	24.0	Gold	1353.2	+0.1
GBP	1.4026	-0.5	1.4006	1.4145	HKD	7.821	+0.0		Stoxx 50	3,427	+1.1	3.6	HRC steel	751.0	+0.8
JPY	106.21	+0.1	105.55	106.38	CNY	6.342	+0.0		FTSE	7,295	+0.8	-0.1	CRB	193.6	+0.1
CAD	1.2558	+0.6			SGD	1.311	+0.2		DAX	12,452	+0.9	5.9	Wheat Chic.	471.5	-0.8
NZD/AUD	0.9349	+0.3			IDR	13,524	-0.3		CAC 40	5,282	+0.8	8.5	Sugar	13.38	-1.8
NZD/EUR	0.5957	+0.5			THB	31.31	+0.1		Nikkei	21,720	+1.2	12.9	Cotton	75.72	+0.4
NZD/GBP	0.5269	+0.2			KRW	1,063	-0.9		Shanghai	3,199	+0.4	-0.4	Coffee	120.5	-3.0
NZD/JPY	78.49	-0.2			TWD	28.98	-0.2		ASX 200	5,904	-0.1	1.7	WMI powder	3210.0	+0.0
NZD/CAD	0.9280	+0.3			PHP	52.22	+0.2		NZX 50	8,125	+0.8	14.5	Australian Futures		
NZ TWI	75.78	-0.1											3 year bond	97.85	0.00
													10 year bond	97.12	0.02

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	1.50	1.87	2.46	2.89	USD	2.87	-0.03	NZGB 3 04/15/20	1.87	0.01	1 year	1.99	-0.00
AUD	1.50	1.77	2.03	3.05	AUD	2.92	0.00	NZGB 6 05/15/21	2.07	-0.00	2 year	2.17	-0.00
NZD	1.75	1.91	2.17	3.28	NZD	2.99	-0.02	NZGB 5 1/2 04/15/23	2.41	-0.01	5 year	2.73	-0.02
EUR	0.00	0.06	-0.12	1.13	GER	0.71	-0.06	NZGB 2 3/4 04/15/25	2.74	-0.01	7 year	3.01	-0.02
GBP	0.50	0.55	0.99	1.65	GBP	1.58	-0.07	NZGB 4 1/2 04/15/27	2.99	-0.02	10 year	3.29	-0.02
JPY	-0.03	-0.07	0.05	0.29	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.35	-0.02	15 year	3.53	-0.02
CAD	1.25	1.17	2.18	2.66	CAD	2.32	-0.06	NZGB 2 3/4 04/15/37	3.50	-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: Sat morn NY close

Source: Bloomberg

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