

19 January 2018



Events Round-Up

NZ: REINZ house sales (y/y%), Dec: -10.1 vs. -8.9 prev.
AU: Employment change ('000), Dec: 34.7 vs. 15.0 exp.
AU: Unemployment rate (%), Dec: 5.5 vs. 5.4 exp.
CH: GDP (y/y%), Q4: 6.8 vs. 6.7 exp.
CH: Fixed assets (y/y%), Dec: 7.2 vs. 7.1 exp.
CH: Retail sales (y/y%), Dec: 9.4 vs. 10.2 exp.
CH: Industrial production (y/y%), Dec: 6.2 vs 6.1 exp.
US: Housing starts ('000), Dec: 1192 vs. 1275 exp.
US: Building permits ('000), Dec: 1302 vs. 1295 exp.
US: Philly Fed business outlook, Jan: 22.2 vs. 25.0 exp.

Good Morning

Focus is currently on Washington where a US government shutdown deadline looms this weekend unless a stopgap funding bill is agreed. The USD remains under pressure as a result, while the US 10-year rate pushed through 2.60% for the first time since March.

Since yesterday's daily, there has been a swing in the USD, falling as reports came through that a stopgap funding bill didn't have enough votes, then rising following news that Apple would pay a one-time tax of \$38bn on its overseas cash holdings and invest \$30bn in capital spending in the US over five years that would create more than 20,000 jobs. While some focused on the positive USD effect of US companies repatriating funds, an arguably better explanation is the feel-good factor if other companies make similar decisions. Make America great again? Following this, there was more conflicting news on whether or not a government shutdown in the US might be averted. We still await a vote on a stop-gap spending bill, with a tweet by Trump last night adding to the difficulty in getting agreement.

With all this going on, economic data have taken a backseat. US data were mixed, but dismissed by the market fairly readily due to their inherent volatility – a plunge in jobless claims following their recent upward spike; and ditto for housing starts, while permits were in line. A slightly weaker Philly Fed survey might be explained by harsh weather. On a more positive note, China data confirmed that growth was solid, with full-year GDP rising by 6.9%, its first increase since 2010. Retail sales growth was weaker than expected but all the other

key indicators were slightly stronger.

Soon after we went to print yesterday, NZD/USD shot up to 0.7331 and that proved to be the high for the day, with the Apple news seeing that move quickly reversed. After regaining its poise we saw the NZD get dragged down alongside a weaker AUD, as the market focused on the higher than expected Australian unemployment rate than the better jobs figure. From a low of 0.7245, the lack of any positive news on the threat of a US government shutdown has since seen broadly based weakness in the USD and the NZD push back up through the 0.73 mark. We've been down this road many times before, with noise about the US government shutting down and possibility of defaulting on an interest payment, but the end result has always been a kicking of the can down the road and no default event.

The NZD has slightly outperformed, making it higher on the crosses, but not significantly so. NZD/AUD is slightly higher at 0.9140, even as AUD/USD has pushed back up to the 0.80 mark. Broadly-based USD weakness sees EUR/USD up to 1.2225, GBP up through 1.39 (but since retreating) and USD/JPY trading just below 111.

Angst around the possibility of the US government shutdown may have been a factor in pushing the US 10-year rate up to as high as 2.62%, just 1bp shy of the peak in March last year and a key technical level to watch. It has since retreated down to 2.60%. But one doesn't need to search hard to find reasons why rates are back up to 2.6%, with the upward trend this year easily explainable by the stronger US growth and inflation picture and higher conviction on further Fed tightening this year.

In the local rates market yesterday, the DMO's tender of 2025 bonds met strong demand, with a bid/cover ratio of 3 and clearing through pre-tender mid-rates. But the bigger force on the market was higher US rates, which saw longer end government bond rates up 3-4bps and the swap curve up 2bps. The 2-year rate closed at 2.25%, the highest level since September.

In the day ahead, NZ PMI data will be released where we'll be seeing if activity has held up or not post-election despite the plunge in business confidence. Globally, the key focus will remain US shutdown risks. The economic calendar looks light, with the speech by the Fed's newcomer Bostic on the US economy of some interest.

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Dec		57.7	10:30
UK	Retail sales ex auto fuel (y/y%)	Dec	2.6	1.5	22:30
US	Fed's Bostic speaks on US economy				02:45
US	U. of Mich. consumer sent.	Jan P	97	95.9	04:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities			Commodities**							
Indicative overnight ranges (*)					Other FX			Major Indices			Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		Last	Net Day	
NZD	0.7307	+0.5	0.7261	0.7321	CHF	0.9596	-0.7		S&P 500	2,799	-0.1	23.2	Oil (Brent)	69.33	-0.1
AUD	0.7997	+0.3	0.7952	0.8007	SEK	8.029	-0.3		Dow	26,024	-0.3	31.4	Oil (WTI)	64.01	+0.0
EUR	1.2226	+0.3	1.2179	1.2265	NOK	7.850	-0.4		Nasdaq	7,304	+0.1	31.5	Gold	1330.3	-0.7
GBP	1.3880	+0.4	1.3805	1.3913	HKD	7.818	-0.0		Stoxx 50	3,621	+0.2	9.9	HRC steel	675.0	+0.0
JPY	110.94	-0.3	110.70	111.47	CNY	6.420	-0.2		FTSE	7,701	-0.3	6.3	CRB	196.1	-0.1
CAD	1.2435	-0.0			SGD	1.322	-0.2		DAX	13,281	+0.7	14.5	Wheat Chic.	437.5	+0.7
NZD/AUD	0.9137	+0.1			IDR	13,347	-0.1		CAC 40	5,495	+0.2	13.2	Sugar	13.13	-2.2
NZD/EUR	0.5977	+0.2			THB	31.91	-0.1		Nikkei	23,763	-0.4	24.6	Cotton	82.67	+0.6
NZD/GBP	0.5264	+0.2			KRW	1,070	+0.1		Shanghai	3,475	+0.9	12.0	Coffee	121.7	-1.1
NZD/JPY	81.06	+0.2			TWD	29.56	-0.1		ASX 200	6,015	-0.0	5.7	WM powder	3120.0	-0.8
NZD/CAD	0.9086	+0.4			PHP	50.78	+0.0		NZX 50	8,273	-0.3	17.1	Australian Futures		
NZ TWI	75.36	+0.3											3 year bond	97.735	-0.01
													10 year bond	97.17	-0.02

Interest Rates							
	Rates		Swap Yields		Benchmark 10 Yr Bonds		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	
USD	1.50	1.74	2.25	2.61	USD	2.60	0.01
AUD	1.50	1.81	2.09	2.96	AUD	2.81	0.02
NZD	1.75	1.88	2.26	3.24	NZD	2.92	0.04
EUR	0.00	0.06	-0.13	0.96	GER	0.57	0.01
GBP	0.50	0.52	0.87	1.40	GBP	1.33	0.02
JPY	-0.04	-0.03	0.05	0.29	JPY	0.08	-0.01
CAD	1.25	1.17	2.16	2.54	CAD	2.21	0.01

NZ Government Bonds				NZ Swap Yields		
	Last				Last	
NZGB 3 04/15/20	2.01	0.02		1 year	2.02	0.00
NZGB 6 05/15/21	2.19	0.02		2 year	2.25	0.02
NZGB 5 1/2 04/15/23	2.46	0.03		5 year	2.75	0.02
NZGB 2 3/4 04/15/25	2.71	0.04		7 year	2.99	0.02
NZGB 4 1/2 04/15/27	2.92	0.04		10 year	3.24	0.02
NZGB 3 1/2 04/14/33	3.23	0.03		15 year	3.48	0.02
NZGB 2 3/4 04/15/37	3.38	0.03				

* 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

Currency Strategist
+61 2 9293 7109

Gavin Friend

Senior Markets Strategist
+44 20 7710 2155

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