

19 March 2018



Events Round-Up

- NZ: BNZ Manufacturing PMI, Feb: 53.4 vs. 54.4 prev.
- EC: CPI Core YoY, Feb: 1.0 vs. 1.0 exp.
- US: Housing Starts ('000), Feb: 1236 vs. 1290 exp.
- US: Building Permits ('000), Feb: 1298 vs. 1320 exp.
- US: Industrial Production (m/m%), Feb: 1.1 vs. 0.4 exp.
- US: U. of Mich. cons. sent., Mar: 102.0 vs. 99.3 exp.

Good Morning

The NZD and AUD ended last week on a soft note, showing some clear underperformance on a day when other market movements were modest.

Friday's Asian trading session showed a risk off tone after reports came through that Trump's national security advisor McMaster had been ousted, continuing the string of firings of Trump's key advisors. These rumours were later denied by Trump's spokeswoman, but it seems that his firing has simply been delayed. Politico reports on a number of other remaining key staff members that Trump is pushing out the door, adding to instability in the White House. But both the NZD and AUD were weaker during the day and never recovered.

The NZD was on a downward path for most of the day and fell down to a low of 0.7208, closing the session a little above that and down 0.8% for the day overall. The key support level near 0.7175 remains in focus and looks vulnerable in the week ahead on any possible news of Trump upping the ante with more tariffs or if new Fed chair Powell shows a more hawkish than expected bias in his press conference after Thursday's FOMC announcement.

The AUD was even weaker, down 1.1% to around 0.7715 and hitting its low for the year in the process, just under that mark. NZD/AUD reversed its decline during the NZ session to 0.9295, powering on up to end the week near 0.9360.

Reflecting the risk-off mood, JPY was the strongest performer for the day. USD/JPY got down to as low as 105.60 before closing the week nearer 106. NZD/JPY closed the week around 76.5, with key support at 76 threatened this week on any further deterioration in risk appetite.

USD indices were slightly up for the day, helped by a

recovery after much stronger than expected industrial production and consumer sentiment data. Earlier in the session, soft housing starts and permits data were largely ignored, with some undershooting following a previous strong month. Consumer sentiment jumped to a 14-year high, driven by the current conditions component and probably a reflection of the tax cuts.

After drifting lower during Asia trading down to 2.81%, the US 10-year Treasury rate showed some life after those strong US economic releases, stretching to 2.86% before closing the week at 2.84%. The risk-off tone saw NZ rates lower for the day, with falls of 4-5bps for government bonds and 1-2bps for swaps.

In a Reuters interview, ECB chief economist Praet argued against revising the Bank's policy guidance anytime soon. Soon after, the final reading for February's euro-area CPI was revised down to 1.1% y/y while the core measure remained at just 1.0%. The weaker NZD was the greater force for the NZD/EUR cross, seeing it end the day down 0.7% to around 0.5870.

The day ahead is looking quiet on paper with the NZ performance of services index the only release on note on the calendar.

For the week ahead, the FOMC meeting on Thursday morning NZ time holds the most interest, with attention on the new set of projections and how Powell handles the press conference. G20 finance ministers and central bankers meet and no doubt will be discussing global trade issues and signs of increased protectionism. It's a big week in the UK, with some long-awaited details around Brexit expected to be revealed during the EU summit in Brussels, plus the BoE meeting. Closer to home, the RBNZ's OCR Review follows two hours after the FOMC statement and should pass with little market reaction, with the market more interested in NZ monetary policy matters when the new Governor's term begins.

Finally, the House and Senate need to agree on a funding bill otherwise the US government will shut down (again) at the end of the week.

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Coming Up

| | Period | Cons. | Prev. | NZT |
|-------------------------------|--------|-------|-------|-------|
| NZ Perform. of services index | Feb | | 55.8 | 10:30 |

Source: Bloomberg, BNZ

| Foreign Exchange | | | | | | | Equities | | | | Commodities** | | | | | |
|---------------------------------|--------|-------|--------|----------|-----|--------|---------------|--|--|----------|---------------|--------|------|---------------------------|---------|-------|
| Indicative overnight ranges (*) | | | | Other FX | | | Major Indices | | | | Price | | | | | |
| | Last | % Day | Low | High | | Last | % Day | | | Last | % Day | % Year | | Last | Net Day | |
| NZD | 0.7217 | -0.8 | 0.7208 | 0.7261 | CHF | 0.9520 | +0.1 | | | S&P 500 | 2,752 | +0.2 | 15.7 | Oil (Brent) | 66.21 | +1.7 |
| AUD | 0.7713 | -1.1 | 0.7718 | 0.7804 | SEK | 8.194 | +0.2 | | | Dow | 24,947 | +0.3 | 19.3 | Oil (WTI) | 62.34 | +1.9 |
| EUR | 1.2290 | -0.1 | 1.2260 | 1.2336 | NOK | 7.715 | +0.0 | | | Nasdaq | 7,482 | +0.0 | 26.8 | Gold | 1312.3 | -0.4 |
| GBP | 1.3942 | +0.0 | 1.3890 | 1.3980 | HKD | 7.842 | +0.0 | | | Stoxx 50 | 3,437 | +0.7 | -0.3 | HRC steel | 822.0 | +0.6 |
| JPY | 106.01 | -0.3 | 105.60 | 106.24 | CNY | 6.335 | +0.2 | | | FTSE | 7,164 | +0.3 | -3.5 | CRB | 194.5 | +0.3 |
| CAD | 1.3096 | +0.3 | | | SGD | 1.318 | +0.3 | | | DAX | 12,390 | +0.4 | 2.4 | Wheat Chic. | 485.0 | -2.2 |
| NZD/AUD | 0.9357 | +0.3 | | | IDR | 13,751 | +0.0 | | | CAC 40 | 5,283 | -1.1 | 5.0 | Sugar | 12.65 | -0.7 |
| NZD/EUR | 0.5872 | -0.7 | | | THB | 31.24 | +0.1 | | | Nikkei | 21,677 | -0.6 | 11.0 | Cotton | 82.85 | -0.8 |
| NZD/GBP | 0.5176 | -0.9 | | | KRW | 1,066 | +0.1 | | | Shanghai | 3,270 | -0.6 | 1.0 | Coffee | 118.1 | -0.6 |
| NZD/JPY | 76.51 | -1.1 | | | TWD | 29.12 | -0.1 | | | ASX 200 | 5,949 | +0.5 | 2.6 | WM powder | 3090.0 | -0.2 |
| NZD/CAD | 0.9451 | -0.5 | | | PHP | 51.95 | +0.0 | | | NZX 50 | 8,477 | +0.1 | 18.4 | Australian Futures | | |
| NZ TWI | 74.48 | -0.5 | | | | | | | | | | | | 3 year bond | 97.875 | -0.02 |
| | | | | | | | | | | | | | | 10 year bond | 97.28 | -0.01 |

| 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 | 1.50 | 2.18 | 2.61 | 2.89 | USD | 2.84 | 0.02 | NZGB 6 05/15/21 | 2.04 | -0.04 | 1 year | 2.11 | 0.00 |
| AUD | 1.50 | 1.96 | 2.04 | 2.91 | AUD | 2.69 | -0.01 | NZGB 5 1/2 04/15/23 | 2.33 | -0.05 | 2 year | 2.26 | -0.01 |
| NZD | 1.75 | 1.93 | 2.26 | 3.19 | NZD | 2.83 | -0.04 | NZGB 2 3/4 04/15/25 | 2.62 | -0.05 | 5 year | 2.71 | -0.02 |
| EUR | 0.00 | 0.06 | -0.14 | 1.01 | GER | 0.57 | -0.01 | NZGB 4 1/2 04/15/27 | 2.83 | -0.04 | 7 year | 2.95 | -0.02 |
| GBP | 0.50 | 0.61 | 1.04 | 1.54 | GBP | 1.43 | -0.01 | NZGB 3 04/20/29 | 3.00 | -0.04 | 10 year | 3.19 | -0.02 |
| JPY | -0.07 | -0.06 | 0.05 | 0.26 | JPY | 0.04 | -0.01 | NZGB 3 1/2 04/14/33 | 3.18 | -0.04 | 15 year | 3.43 | -0.02 |
| CAD | 1.25 | 1.17 | 2.13 | 2.53 | CAD | 2.14 | -0.01 | NZGB 2 3/4 04/15/37 | 3.33 | -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: NY close Sat morn

Source: Bloomberg

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