

20 April 2017

Events Round-Up

NZ: Services PMI, Mar: 59.0 vs. 58.8 exp.

EC: Trade balance (€bn), Feb: 19.2 vs. 18.0 exp.

EC: CPI (y/y%), Mar F: 1.5 vs. 1.5 exp.

EC: CPI core (y/y%), Mar F: 0.7 vs. 0.7 exp.

Good Morning

In a slow news day there has been a modest reversal of recent trends, with the USD and UST yields both higher. The VIX index is flat around 14½, and the S&P500 is flat after some mixed earnings results.

The USD is up on all the major crosses, finding some support after a weak run, with the major currency TWI up about 0.4%. Commodity currencies are at the bottom of the leaderboard, with the NZD, AUD and CAD down in the order of 0.6-0.8%. Commodity prices are generally softer, with Bloomberg's commodity price index down 0.8%, marking a near 2% fall for the week so far. Crude oil prices are down in the order of 3½-4%, following a report that showed a surprise increase in US gasoline inventories and crude production rising to its highest level in over 18 months.

The AUD has been the worst performer, falling steadily before finding some support around the 0.75 mark. The move lower has come despite iron ore prices rising by about 2% yesterday, a rare increase after its recent tumble. The NZD has fallen to around 0.7000 despite dairy prices continue to lift. The NZX whole milk powder future for June has nudged up to \$3250. That follows the third solid GDT dairy auction in a row in a market that seems to be seeing improved demand. NZDAUD is up 0.3% for the day to 0.9340 after earlier reaching a 7-week high of 0.9365.

After yesterday's surge in GBP after PM May called a snap election, the currency has come off the boil and is 0.4% lower at just below 1.28. The PM won overwhelming support in Parliament to push ahead for the 8 June election. In reference to Brexit negotiations she told the house that "...every vote for the Conservatives will make it harder for those who want to stop me from getting the job done". The pullback in GBP might reflect some scepticism that anything much has changed for the UK ahead of its arduous negotiations with the EU. While Britain's hand might be slightly stronger, the EU still holds the ace cards.

Against the stronger USD, EUR has been one of the better

performers, down only slightly to 1.0720. Final CPI figures for March confirmed the drop in annual headline and core inflation, the latter down to 0.7% y/y, reducing the chance of the ECB changing its policy tone at its next meeting. The key near term risk for the common currency is Sunday's first round of the French Presidential election, with the polls showing a tight race between the top four candidates. We see modest upside risk to EUR if Macron or Fillon win the first round but significant downside risk if Le Pen and Melenshon win the top two slots to face the second round.

USD/JPY is up 0.3% to 108.80, supported by higher US Treasury yields, with rates 1-3bps higher across the curve. The 10-year rate sits around 2.20%, up from the fresh lows for the year seen yesterday. Higher US rates might have been influenced by the circa 5bps rise in UK and Germany 10 year rates. After a big fall in global rates recently some serious questions are probably being asked about how much further they can fall.

Yesterday, the fall in local rates reflected the previous day's US trading. NZ's 10-year government bond rate fell by 6bps to 2.91, its lowest level since November. The market is likely to welcome some new supply, with the DMO looking to sell \$150m of 2025 bonds today.

The yield curve flattened, with traders wary of taking short end rates lower ahead of today's Q1 CPI release. The 2-year swap rate was flat around 2.30%, while the 10-year swap rate fell by 4bps to 3.26%.

The CPI release is expected to show rising inflationary pressure. Annual CPI is expected to be 2.0% by the market and 2.1% by BNZ economists. This is well up from 1.3% y/y in Q4 and 0.4% just six months ago. Core inflation measures are also expected to continue their rising trend. The RBNZ has already indicated that it will look-through what it suspects to be a temporary rise in inflation. This has reduced the prospect for a significant market reaction to the likely high inflation outturn.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ CPI, q/q%	Q1	0.8	0.4	10:45
NZ CPI, y/y%	Q1	2.0	1.3	10:45
AU NAB business confidence	Q1		5	13:30
NZ NZ plans to sell 150m 2025 Bonds				14:05
US Initial jobless claims ('000)		240	234	00:30
US Philly Fed business outlook	Apr	25.8	32.8	00:30
EC Consumer Confidence	Apr A	-4.8	-5.0	02:00

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	0.7003	-0.6	0.6997	0.7047	CHF	0.9978	+0.2	S&P 500	2,341	-0.0	11.5	Oil (Brent)	52.88	-3.7	
AUD	0.7497	-0.8	0.7492	0.7528	SEK	8.971	+0.2	Dow	20,415	-0.5	13.1	Oil (WTI)	50.40	-3.8	
EUR	1.0717	-0.1	1.0700	1.0737	NOK	8.580	+0.8	Nasdaq	5,866	+0.3	18.7	Gold	1281.8	-0.8	
GBP	1.2783	-0.5	1.2773	1.2859	HKD	7.774	+0.0	Stoxx 50	3,421	+0.3	9.9	HRC steel	650.0	-0.8	
JPY	108.72	+0.3	108.57	109.18	CNY	6.888	+0.1	FTSE	7,114	-0.5	11.1	CRB	183.9	-1.4	
CAD	1.3488	+0.8			SGD	1.398	+0.2	DAX	12,016	+0.1	16.1	Wheat Chic.	434.5	-0.6	
NZD/AUD	0.9341	+0.3			IDR	13,319	+0.2	CAC 40	5,004	+0.2	9.6	Sugar	16.42	-1.7	
NZD/EUR	0.6534	-0.4			THB	34.39	+0.2	Nikkei	18,432	+0.1	9.0	Cotton	77.67	+1.1	
NZD/GBP	0.5478	-0.1			KRW	1,140	-0.2	Shanghai	3,171	-0.8	6.7	Coffee	140.7	-3.4	
NZD/JPY	76.14	-0.3			TWD	30.42	+0.1	ASX 200	5,804	-0.6	11.3	WM powder	3250.0	+2.2	
NZ TWI	76.32	-0.3			PHP	49.77	+0.2	NZX 50	7,219	-0.2	4.6				
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	1.00	1.16	1.49	2.16	USD	2.20	0.04	NZGB 3 04/15/20	2.22	-0.04	1 year	2.08	-0.00		
AUD	1.50	1.75	1.84	2.77	AUD	2.46	-0.03	NZGB 6 05/15/21	2.33	-0.04	2 year	2.30	+0.00		
NZD	1.75	1.97	2.30	3.26	NZD	2.91	-0.06	NZGB 5 1/2 04/15/23	2.62	-0.05	5 year	2.81	-0.01		
EUR	0.00	0.06	-0.16	0.68	GER	0.20	0.05	NZGB 2 3/4 04/15/25	2.85	-0.06	7 year	3.04	-0.02		
GBP	0.25	0.34	0.55	1.09	GBP	1.07	0.05	NZGB 4 1/2 04/15/27	2.91	-0.06	10 year	3.26	-0.04		
JPY	-0.04	0.01	0.02	0.20	JPY	0.01	0.00	NZGB 3 1/2 04/14/33	3.20	-0.08	15 year	3.54	-0.04		
CAD	0.50	1.17	1.06	1.74	CAD	1.46	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 06:58

Source: Bloomberg

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