

20 April 2018



Events Round-Up

NZ: CPI (q/q%), Q1: 0.5% vs. 0.4% exp.

NZ: CPI (y/y%), Q1: 1.1% vs. 1.1% exp.

AU: Employment change, Mar: 4.9k vs. 20k exp.

AU: Unemployment rate, Mar: 5.5% vs. 5.5% exp.

UK: Retail sales ex auto fuel (y/y%), Mar: 1.1% vs. 1.4% exp.

US: Philly Fed Business Outlook, Apr: 23.2 vs. 21 exp.

Good Morning

Commodity prices remain in the spotlight, with oil prices making a fresh high again overnight, although they have since eased back. The 10 year US Treasury increased again, with the yield curve steepening for a change, amid higher inflation expectations. US equity markets are lower and the USD stronger.

Oil prices continued their recent rise overnight, with Brent crude increasing to almost \$75 per barrel, highest since 2014. Oil prices have since eased back from those intraday highs to around unchanged on the day, but remain more than 5% up on the month and 10% on the year. Ahead of a meeting between OPEC countries and Russia later this week, the Oman oil minister said "I don't think its mission accomplished" with the group's supply cuts. The oil futures curve is downward sloping (in so called "backwardation"), implying that inventory levels have tightened.

Metals prices have also been in focus recently, after sanctions on Russian aluminium producer Rusal (which is responsible for 6% of global supply) pushed up aluminium prices sharply this month. Several other metals prices are also up sharply of late, including palladium and nickel, both of which are heavily produced in Russia (the market fears other Russian firms could be the target of future sanctions). Metals prices eased off a little overnight after the Russian government said it was considering a 'temporary nationalisation' of Rusal as one of its options to support the company.

Although commodity prices eased off a little overnight, the run-up over the past month has boosted inflation expectations and helped lift bond yields. Overnight, 10 year breakeven inflation moved up 2bps to 2.18%, to its highest level since 2014. Meanwhile, the US 10 year

Treasury yield increased 4bps to 2.91%, close to the multi-year highs reached earlier this year, and the yield curve steepened. Fed Governor Brainard, seen as one of the 'doves' on the committee, said overnight that the fiscal stimulus would "reinforce cyclical pressures", adding to Fed rate hike expectations. The market now prices 54bps of rate hikes by the end of the year (so slightly more than the 2 hike median set out in the latest set of Fed projections).

There were also significant moves higher in other major bond markets, with the 10 year German yield up 7bps and the 10 year UK yield up 11bps. The increase in UK yields came despite weaker than expected UK retail sales overnight and some slightly dovish comments by BoE Governor Carney, who described recent data as "mixed" and said he was "conscious that there are other meetings over the course of the year", raising the risk that the Bank might wait past May for their next rate hike (the market still prices this at around 80%). The NZ swaps curve steepened yesterday, with the 2 year swap rate almost unchanged but the 10 year rate up just over 3bps. Given the overnight moves, we can expect more steepening in the NZ swaps curve today.

The increase in bond yields has contributed to equity markets falling overnight, with the major US indices down between 0.5% to 1%. The S&P500 is still up almost 2% on the month. Banking sector stocks outperformed for a change, helped by the rise in interest rates and steeper yield curve. Earnings results were generally better than expected, including from Proctor and Gamble, Bank of New York Mellon and Blackstone. 79% of US corporates have beaten analyst earnings expectations and 83% sales expectations so far this earnings season.

The USD is broadly stronger overnight against a backdrop of higher US interest rates and little fresh news on trade tensions. The Bloomberg dollar index is up around 0.5%, but remains well within its recent trading ranges. The yen has outperformed amidst the modest pick-up in risk aversion (as reflected in lower equities) while the NZD and AUD are among the weakest currencies on the day.

NZ CPI was slightly stronger than expected on a quarterly basis, with the annual headline rate in line with consensus (and the RBNZ's February forecast). The NZD initially jumped from around 0.7315 to above 0.7340 after the release, but quickly gave up those gains. We didn't think there much in the CPI report to materially shift our expectations for monetary policy. The NZD has since

declined to around 0.7265, around a two week low, in sympathy with the broader strength in the USD and decline in equities. RBNZ Governor Adrian Orr gave a wide ranging interview on radio before the CPI release but didn't give much away about his policy intentions and there wasn't much immediate market reaction.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	Natl CPI Ex Fresh Food YoY	Mar	0.9	1	11:30
CA	CPI YoY	Mar	2.4	2.2	00:30
CA	CPI Core- Common YoY%	Mar	2	1.9	00:30
US	Fed's Evans Speaks on the Economy and Monetary Policy				01:40

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	0.7262	-0.8	0.7261	0.7331	CHF	0.9717	+0.3	S&P 500	2,684	-0.9	14.8		Oil (Brent)	73.82	+0.4	
AUD	0.7720	-0.8	0.7720	0.7813	SEK	8.414	+0.1	Dow	24,604	-0.5	20.6		Oil (WTI)	68.32	-0.3	
EUR	1.2345	-0.2	1.2329	1.2400	NOK	7.802	+0.5	Nasdaq	7,224	-0.9	23.2		Gold	1348.3	-0.4	
GBP	1.4087	-0.8	1.4079	1.4246	HKD	7.848	-0.0	Stoxx 50	3,487	-0.1	1.9		HRC steel	859.0	+0.4	
JPY	107.38	+0.1	107.25	107.47	CNY	6.279	+0.1	FTSE	7,329	+0.2	3.0		CRB	201.8	-0.6	
CAD	1.2672	+0.3			SGD	1.312	+0.2	DAX	12,567	-0.2	4.6		Wheat Chic.	509.0	+0.4	
NZD/AUD	0.9407	+0.0			IDR	13,785	+0.1	CAC 40	5,392	+0.2	7.8		Sugar	11.95	+0.5	
NZD/EUR	0.5883	-0.6			THB	31.25	+0.2	Nikkei	22,191	+0.1	20.4		Cotton	82.82	+0.2	
NZD/GBP	0.5155	+0.0			KRW	1,062	-0.7	Shanghai	3,117	+0.8	-1.7		Coffee	116.3	-0.5	
NZD/JPY	77.98	-0.6			TWD	29.35	-0.0	ASX 200	5,881	+0.3	1.0		WM powder	3285.0	+0.3	
NZD/CAD	0.9202	-0.5			PHP	52.08	-0.0	NZX 50	8,373	+0.0	16.5		Australian Futures			
NZ TWI	74.84	-0.5											3 year bond	97.72	0.00	
													10 year bond	97.19	-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			
USD	1.75	2.36	2.72	2.94	USD	2.91	0.04	NZGB 6 05/15/21		2.12	0.02	1 year	2.16	-0.00		
AUD	1.50	2.07	2.18	2.98	AUD	2.78	0.04	NZGB 5 1/2 04/15/23		2.39	0.02	2 year	2.32	0.00		
NZD	1.75	2.06	2.31	3.19	NZD	2.84	0.02	NZGB 2 3/4 04/15/25		2.65	0.02	5 year	2.75	0.02		
EUR	0.00	0.06	-0.14	1.01	GER	0.60	0.07	NZGB 4 1/2 04/15/27		2.84	0.02	7 year	2.96	0.02		
GBP	0.50	0.78	1.15	1.63	GBP	1.52	0.11	NZGB 3 04/20/29		3.03	0.02	10 year	3.19	0.03		
JPY	-0.06	-0.04	0.05	0.27	JPY	0.04	0.01	NZGB 3 1/2 04/14/33		3.22	0.03	15 year	3.45	0.04		
CAD	1.25	1.17	2.29	2.70	CAD	2.32	0.04	NZGB 2 3/4 04/15/37		3.42	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 06:40

Source: Bloomberg

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