

20 March 2018



## Events Round-Up

NZ: Perform. of services index, Feb: 55.0 vs. 55.8 prev.

## Good Morning

Another rough day for equity markets has helped support the bond market, while in the currency market, GBP leads the way while the AUD has underperformed.

US equities are much weaker, driven by the tech sector, with the S&P500 currently down 1.7% and the Nasdaq down 2.3%. Idiosyncratic factors can explain the falls in Facebook and Apple, but in addition a draft EU report proposes a 3% tax on revenue on large digital companies based on where their users are located. While capturing increased tax from US tech giants might well have been on the drawing board for some time, some see this policy as part of the escalation in trade tensions between the US and other countries.

Earlier in the Asian trading session, a risk-off tone developed after President Trump stepped up his attack on special counsel Mueller's probe into Russia's meddling in the US presidential election, prompting warnings from both parties for him not to interfere in the investigation.

In a session with little economic data released, the key news overnight has been that the UK and EU reached a deal on the transition agreement post Brexit, which is expected to be signed later this week at the EU summit. The deal provides for the free movement of goods, services, capital and people between the UK and EU until the end of 2020 and allows the UK to negotiate free trade agreements with other countries that can take effect after that date. The colour-coded draft shows areas of agreement and dispute that can be worked on in the period ahead, with the thorny issue of the Northern Ireland border unresolved.

Across currency markets, trading volumes has been modest with focus on Thursday's FOMC announcement but the transitional deal announcement sees GBP lead the way, up 0.8% to 1.4050 and pushing NZD/GBP down to 0.5150. We have long expected such a transitional deal and this underpins our bullish GBP view for this year. It provides some certainty for businesses over the next couple of years, gives the BoE more clarity as it seeks to tighten monetary policy, and should take Brexit risks off the front pages. These factors should allow the discount currently built into GBP to gradually fade and send NZD/GBP back into the 0.40s.

The NZD drifted down yesterday afternoon as the risk-off tone developed and this saw it fall to as low as 0.7197. However, since then the USD has come under some mild downside pressure and this sees the NZD push up to 0.7240, up 0.3% since the weekend close. During the risk-off session, the AUD fell to a fresh YTD low of 0.7687 and it has struggled to recover much and currently sits just above 0.77. A number of negative AUD reports have been issued recently with some focused on the negative outlook for iron ore prices. Iron ore prices are down about 8% month-to-date and are expected to fall further. Trade tensions between the US and China haven't helped sentiment either. NZD/AUD has pushed up to its highest level this year to just under the 0.94 mark, which is basically the top end of our fair value estimate range on our various models.

Reuters reported that ECB policy makers are said to be shifting their debate to the future path of rate hikes. The report noted that policy makers were comfortable with market forecasts, including for a rate hike by mid-2019, and the debate is increasingly about the steepness of the rate path thereafter. This has helped support EUR, alongside the positive news on Brexit negotiations, seeing EUR up 0.4% to 1.245%.

There has been no fresh news to drive US Treasuries and they seem to have found a bid as equity markets come under pressure. The 10-year rate is down 1bp to 2.83% after earlier reaching as high as 2.88%. Rates should remain in a holding pattern until the FOMC announcement this week. NZ bond and swap rates were up in the order of 1-2bps across the curve.

The key release in the day ahead is UK CPI inflation tonight ahead of the BoE meeting at the end of the week. The GDT dairy auction is expected to show some modest price declines. Meanwhile, as the heavy hitters from the G20 meet in Argentina, we expect to see some headlines emerge, with trade tensions a big talking point.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Westpac cons. confid.	Q1		107.4	10:00
AU	House price index (q/q%)	Q4	0.0	-0.2	13:30
AU	RBA March Meeting Minutes	Mar			13:30
UK	CPI (y/y%)	Feb	2.8	3.0	22:30
UK	CPI Core (y/y%)	Feb	2.5	2.7	22:30
GE	ZEW survey expectations	Mar	13.0	17.8	23:00
NZ	GDT dairy auct., avg. winning price			3623	03/21
EC	Consumer confidence	Mar	0	0.1	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				
NZD	0.7245	+0.4	0.7197	0.7244	CHF	0.9506	-0.1		S&P 500	2,699	-1.9	13.5	Oil (Brent)	66.06	-0.2
AUD	0.7711	-0.0	0.7687	0.7718	SEK	8.161	-0.4		Dow	24,548	-1.6	17.4	Oil (WTI)	62.02	-0.5
EUR	1.2344	+0.4	1.2258	1.2345	NOK	7.721	+0.1		Nasdaq	7,311	-2.3	23.9	Gold	1317.3	+0.4
GBP	1.4049	+0.8	1.3913	1.4088	HKD	7.843	+0.0		Stoxx 50	3,395	-1.2	-1.6	HRC steel	822.0	+0.6
JPY	105.86	-0.1	105.68	106.31	CNY	6.332	-0.0		FTSE	7,043	-1.7	-5.1	CRB	192.9	-0.8
CAD	1.3074	-0.2			SGD	1.316	-0.1		DAX	12,217	-1.4	1.0	Wheat Chic.	470.5	-2.9
NZD/AUD	0.9396	+0.4			IDR	13,765	+0.1		CAC 40	5,223	-0.5	3.8	Sugar	12.89	+1.9
NZD/EUR	0.5869	-0.1			THB	31.19	-0.2		Nikkei	21,481	-0.9	10.0	Cotton	81.37	-1.8
NZD/GBP	0.5157	-0.4			KRW	1,072	+0.5		Shanghai	3,279	+0.3	0.9	Coffee	119.4	+0.9
NZD/JPY	76.70	+0.2			TWD	29.18	+0.2		ASX 200	5,959	+0.2	3.1	WM powder	3100.0	-0.3
NZD/CAD	0.9472	+0.3			PHP	52.03	+0.1		NZX 50	8,492	+0.2	20.3	<b>Australian Futures</b>		
NZ TWI	74.76	+0.2											3 year bond	97.875	0.00
													10 year bond	97.30	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	1.50	2.20	2.59	2.87	USD	2.84	-0.01	NZGB 6 05/15/21	2.05	0.00	1 year	2.10	-0.01		
AUD	1.50	1.97	2.06	2.88	AUD	2.70	0.01	NZGB 5 1/2 04/15/23	2.34	0.00	2 year	2.27	0.01		
NZD	1.75	1.93	2.26	3.21	NZD	2.84	0.01	NZGB 2 3/4 04/15/25	2.63	0.01	5 year	2.73	0.02		
EUR	0.00	0.06	-0.15	1.01	GER	0.57	-0.00	NZGB 4 1/2 04/15/27	2.84	0.01	7 year	2.97	0.02		
GBP	0.50	0.61	1.05	1.55	GBP	1.45	0.02	NZGB 3 04/20/29	3.01	0.01	10 year	3.21	0.02		
JPY	-0.07	-0.05	0.05	0.26	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.19	0.01	15 year	3.45	0.02		
CAD	1.25	1.17	2.13	2.53	CAD	2.15	0.02	NZGB 2 3/4 04/15/37	3.34	0.01					

\* 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 06:49

Source: Bloomberg

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