

21 April 2017

## Events Round-Up

NZ: CPI (q/q%), Q1: 1.0 vs. 0.8 exp.

NZ: CPI (y/y%), Q1: 2.2 vs. 2.0 exp.

AU: NAB business confidence, Q1: 6 vs. 5 prev.

US: Philly Fed business outlook, Apr: 22.0 vs. 25.5 exp.

EC: Consumer Confidence, Apr A: -3.6 vs. -4.8 exp.

## Good Morning

There have been various currency movements with different factors in play but the net result has been modest changes for the session. US equities are higher following some better corporate earnings results while UST yields are also higher.

The focus yesterday was on NZ's CPI release. CPI inflation came in stronger than market and RBNZ expectations, reaching a six-year high of 2.2%. On three of the six core CPI measures the RBNZ has previously referred to, annual inflation is now above 2%, while the average of all six is 1.9%, showing a steadily higher trend after bottoming five quarters ago at 1.0%.

Normally a result like this would have seen a rocket under the NZD and much higher rates, but RBNZ guidance this year has been successful in keeping the NZD and rates down. On that basis, we suspected that market reaction to a high CPI figure would be fairly restrained and that proved to be the case. The NZD jumped 40pips on the result and peaked just above 0.7050 last night, before selling pressure emerged and other forces took over. Much of the gain is now fully unwound, with the NZD around 0.7010.

The 2-year swap rate closed the day up 2.5bps at 2.32%, after being up about 5bps at one stage. The 10-year swap rate was up 4bps to 3.30%, with global forces a bigger factor. The first full rate hike is priced for March 2018 which, being just an OCR review rather than a full MPS, likely reflects a toss-up between a February or May 2018 hike. BNZ economists have maintained their view of May-2018 being the timing of the first rate hike.

The market is reluctant to take short rates much higher until it is more confident that the RBNZ will change its tune. The RBNZ's neutral policy guidance (the OCR could go up or down with equal probability) seems unwarranted and we'd expect that to change at the May Monetary Policy Statement, with the future rate track likely to show hikes brought forward from the back end of 2019. However, given the inflation track record of recent years,

the RBNZ probably wants more certainty that inflation pressures will be sustained before making a significant change to its policy guidance, so is likely to tread cautiously and maintain a stance more dovish than market pricing for some time yet.

EUR was well bid last night as the latest poll put Macron in front for the first round vote in Sunday's French Presidential debate, which would likely make him a clear winner in the second round in a head-to-head battle with Le Pen. After EUR/USD rose to close to 1.0780, the gain was fully unwound and it sits this morning at 1.0720. Expectations for a market-friendly election result has seen French-German bond spreads contract, with France's 10-year rate down 3bps against a 4bp increase in Germany's 10-year rate, taking the spread down to 67bps.

In terms of USD forces, Fed speakers don't seem to have changed their views at this stage, following the recent disappointment in some key US economic releases, including the CPI. FOMC voter Kaplan in a Bloomberg interview said that "I still think the median of three rate increases for this year – we've already done one – is still a good baseline". This followed non-voter Rosengren's comments earlier this week that it was appropriate to continue raising rates even though the data had been a little softer than he was expecting. Fischer's speech yesterday highlighted the more positive global backdrop. The USD appears to have found some support this week after last week's chunky fall. UST yields are also higher, around 2-3bps across the curve, as the market contemplates the Fed remaining on course. Fed Funds rate pricing for June is back up, now reflecting a better-than-even chance for a rate hike, while pricing for the rest of the year is now up to 29bps from 26bps. The US 10-year rate is currently 2.24%, up 3bps relative to the NZ close.

The yen has been the weakest major currency, not helped by higher UST yields, while the BoJ's Kuroda was dovish in a Bloomberg interview. He said that the current pace of purchases and monetary base increase would continue for some time and that it was "a long way to go" to reach the inflation target. USD/JPY is up 0.4% to 109.30.

The AUD has recovered some ground after underperforming earlier this week, back up to 0.7530. Better pricing in metals and iron ore have played a supporting role. So despite NZ's higher CPI, NZD/AUD has lost some ground to 0.9315, after almost hitting 0.94 yesterday.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ ANZ consumer confidence	Apr		125.2	13:00
GE Markit manufacturing PMI	Apr P	58.0	58.3	19:30
GE Markit services PMI	Apr P	55.5	55.6	19:30
EC Markit manufacturing PMI	Apr P	56.0	56.2	20:00
EC Markit services PMI	Apr P	55.9	56	20:00
UK Retail sales ex auto fuel (y/y%)	Mar	3.8	4.1	20:30
US Markit manufacturing PMI	Apr P	53.7	53.3	01:45
US Markit US services PMI	Apr P	53.2	52.8	01:45
US Existing home sales (mn)	Mar	5.60	5.48	02:00
FR French Presidential Elections				Sunday

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	0.7013	+0.1	0.7006	0.7052	CHF	0.9985	-0.0		S&P 500	2,359	+0.9	12.2	Oil (Brent)	52.97	+0.1
AUD	0.7528	+0.4	0.7503	0.7547	SEK	8.989	+0.2		Dow	20,602	+1.0	13.8	Oil (WTI)	50.27	-0.3
EUR	1.0721	+0.1	1.0715	1.0778	NOK	8.621	+0.5		Nasdaq	5,923	+1.0	19.7	Gold	1281.9	+0.0
GBP	1.2818	+0.3	1.2787	1.2847	HKD	7.775	+0.0		Stoxx 50	3,440	+0.6	9.5	HRC steel	650.0	-0.8
JPY	109.32	+0.4	108.72	109.49	CNY	6.882	-0.1		FTSE	7,119	+0.1	11.0	CRB	183.0	-0.5
CAD	1.3473	-0.1			SGD	1.398	-0.0		DAX	12,027	+0.1	15.4	Wheat Chic.	421.8	-2.9
NZD/AUD	0.9316	-0.3			IDR	13,323	+0.0		CAC 40	5,078	+0.4	10.6	Sugar	16.33	-0.5
NZD/EUR	0.6541	+0.1			THB	34.41	+0.0		Nikkei	18,430	-0.0	6.1	Cotton	80.07	+3.1
NZD/GBP	0.5471	-0.2			KRW	1,140	-0.0		Shanghai	3,172	+0.0	7.4	Coffee	134.3	-4.5
NZD/JPY	76.67	+0.6			TWD	30.41	-0.0		ASX 200	5,821	+0.3	10.4	WM powder	3250.0	+2.2
NZ TWI	76.36	+0.0			PHP	49.78	+0.0		NZX 50	7,188	-0.4	4.1	<b>Australian Futures</b>		
<b>Interest Rates</b>															
<b>Rates</b>					<b>Swap Yields</b>			<b>Benchmark 10 Yr Bonds</b>		<b>NZ Government Bonds</b>			<b>NZ Swap Yields</b>		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last				Last		
USD	1.00	1.16	1.54	2.21	USD	2.24	0.03	NZGB 3 04/15/20	2.27	0.05		1 year	2.08	-0.00	
AUD	1.50	1.75	1.86	2.81	AUD	2.50	0.05	NZGB 6 05/15/21	2.38	0.05		2 year	2.33	+0.03	
NZD	1.75	1.97	2.33	3.30	NZD	2.95	0.03	NZGB 5 1/2 04/15/23	2.66	0.04		5 year	2.85	+0.04	
EUR	0.00	0.06	-0.15	0.71	GER	0.24	0.04	NZGB 2 3/4 04/15/25	2.89	0.03		7 year	3.08	+0.04	
GBP	0.25	0.34	0.55	1.09	GBP	1.07	0.00	NZGB 4 1/2 04/15/27	2.95	0.03		10 year	3.30	+0.04	
JPY	-0.04	0.01	0.03	0.21	JPY	0.02	0.01	NZGB 3 1/2 04/14/33	3.23	0.03		15 year	3.57	+0.03	
CAD	0.50	1.17	1.08	1.77	CAD	1.49	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 06:59

Source: Bloomberg

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