

21 February 2018



Events Round-Up

NZ: PPI Output (q/q%), Q4: 1.0 vs. 1.0 prev.
SW: CPI underlying, Jan: 1.7 vs. 1.9 exp.
GE: ZEW survey expectations, Feb: 17.8 vs 16.0 exp.
NZ: GDT dairy auction, avg. winning price: -0.5%
EC: Consumer confidence, Feb: 0.1 vs. 1.0 exp.

Good Morning

In a slow start to the week, US Treasury yields have drifted higher, helping support the USD while the NZD is mixed on the crosses.

With the US public holiday on Monday and a lack of key economic releases, it has been a fairly slow start to the week. The market has been focused on the heavy wave of US T-bill and Treasury bond issuance this week – the start of a permanent increase in supply, as the Fed gradually reduces the size of its balance sheet and the US fiscal deficit widens significantly from here. With not much else going on, this saw US Treasury yields drift higher during the Asian trading session, up to a high of 2.925% last night, drifting back down to 2.89% just ahead of the 3-mth and 6-mth T-bill auction before drifting back up to the current 2.91%. Bid-cover for the 3-month auction wasn't great but it improved for the 6-mth auction, with signs of foreign central bank buying.

In economic news, Sweden's underlying CPI figure for January came in 0.2 percentage points lower than expected at 1.7%, dowsing expectations for a rate hike anytime soon and making SEK the weakest of the major currencies, down 1% overnight and 1.3% lower since this time yesterday. The lack of inflation for an economy that has been traveling pretty well, supported by a cheap real exchange rate, negative interest rates, quantitative easing and a booming housing market is telling. It supports the view that some global disinflationary impulse is at work, something that applies when we look at a lot of other countries. It might well have been coincidental, but the timing of that release matched the peak in US 10-year yields overnight and German bund yields. The data certainly give some food for thought about the inflation outlook ahead for other countries.

The USD has found further support after reaching a nadir on Friday. Three positive days in a row for the USD has been a rare event this year. The major currency TWI is up

0.5% for the session, taking its cumulative gain since the intraday low on Friday to 1.5%.

The NZD has traded in a tight range overnight and sits this morning around 0.7350, near its 5pm level yesterday and down a touch over 24 hours. The overnight GDT dairy auction was expected to show a fairly flat result and that was the case, with the average price index down 0.5% and whole milk powder prices up 0.3%. This follows strong price gains earlier this year. We aren't optimistic about pricing for the months ahead, as large EU stockpiles of skim milk powder continue to overhang the market and elevated EU milk production remains a headwind that is likely to persist.

NZD/AUD fell away yesterday afternoon down to a low of 0.9285 before adding back on 50pips and then retreating again. There were no obvious drivers for the swing around. It sits this morning just above the 0.93 mark.

GBP has been the strongest of the majors, as talk surfaces about the UK possibly getting a bespoke trade deal with the EU. An article in Business Insider UK suggested that the European Parliament will allow the UK to have privileged single market access post-Brexit. It sounds like a practical, common sense solution to us and the more we read on Brexit some pragmatism seems to be coming into play from both sides. If this view gains traction, it would support our call for GBP to continue to recover a lot further that would ultimately see NZD/GBP trade a lot lower. GBP is back above 1.40 and NZD/GBP is down slightly to 0.5250.

A generally stronger USD sees USD/JPY up to 107.25 and EUR/USD down to 1.2350, with the NZD crosses for these slightly higher.

In the day ahead, there'll be some focus on Australia wage data, with some pick-up required to awake the RBA from its neutral policy stance. Markit PMIs for the US and euro area are expected to remain strong, indicative of the strong global growth pulse. The Fed's Harker (non-voter) speaks while the BoE's top brass, including Governor Carney speak in London tonight. All this ahead of the FOMC minutes, which will be the key focus, released 8am tomorrow morning NZ time so we'll be churning out another daily report ahead of that release.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Wage price index (q/q%)	4Q	0.5	0.5	13:30
GE	Markit manufacturing PMI	Feb	60.5	61.1	21:30
GE	Markit services PMI	Feb	57.0	57.3	21:30
EC	Markit manufacturing PMI	Feb	59.2	59.6	22:00
EC	Markit services PMI	Feb	57.6	58.0	22:00
UK	Unemployment rate (%)	Dec	4.3	4.3	22:30
US	Fed's Harker Speaks on the Economic Outlook				03:00
UK	BOE's Carney, Broadbent, Haldane & Tenreyro speak				03:15
US	Markit manufacturing PMI	Feb	55.5	55.5	03:45
US	Markit services PMI	Feb	54.0	53.3	03:45
US	Existing home sales (m)	Jan	5.62	5.57	04:00
US	FOMC meeting minutes				08:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7355	-0.2	0.7336	0.7370	CHF	0.9357	+0.7	S&P 500	2,735	+0.1	16.3	Oil (Brent)	65.58	-0.2
AUD	0.7899	-0.2	0.7880	0.7934	SEK	8.088	+1.3	Dow	25,127	-0.4	21.8	Oil (WTI)	62.10	+0.7
EUR	1.2346	-0.5	1.2320	1.2397	NOK	7.837	+0.7	Nasdaq	7,291	+0.7	24.9	Gold	1330.0	-1.7
GBP	1.4005	+0.0	1.3932	1.4025	HKD	7.825	+0.0	Stoxx 50	3,435	+0.8	3.7	HRC steel	752.0	+0.1
JPY	107.25	+0.6	106.74	107.38	CNY	6.342	+0.0	FTSE	7,247	-0.0	-0.7	CRB	194.4	+0.4
CAD	1.2621	+0.5			SGD	1.319	+0.4	DAX	12,488	+0.8	5.6	Wheat Chic.	463.8	-1.6
NZD/AUD	0.9311	-0.1			IDR	13,615	+0.4	CAC 40	5,290	+0.1	8.7	Sugar	13.43	+0.4
NZD/EUR	0.5957	+0.3			THB	31.52	+0.4	Nikkei	21,925	-1.0	13.1	Cotton	77.60	+2.5
NZD/GBP	0.5252	-0.3			KRW	1,073	+0.5	Shanghai	3,199	+0.4	-0.4	Coffee	120.3	-0.2
NZD/JPY	78.88	+0.4			TWD	29.14	+0.1	ASX 200	5,941	-0.0	2.6	WM powder	3200.0	+0.3
NZD/CAD	0.9283	+0.2			PHP	52.27	-0.3	NZX 50	8,098	-0.2	13.8	Australian Futures		
NZ TWI	75.58	-0.0										3 year bond	97.83	0.00
												10 year bond	97.10	-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	1.89	2.49	2.92	USD	2.90	0.03	NZGB 3 04/15/20	1.87	0.01	1 year	2.01	0.00	
AUD	1.50	1.77	2.06	3.06	AUD	2.90	0.01	NZGB 6 05/15/21	2.07	0.01	2 year	2.18	0.01	
NZD	1.75	1.92	2.18	3.28	NZD	2.98	0.02	NZGB 5 1/2 04/15/23	2.42	0.02	5 year	2.73	0.01	
EUR	0.00	0.06	-0.12	1.15	GER	0.74	0.00	NZGB 2 3/4 04/15/25	2.76	0.03	7 year	3.01	0.01	
GBP	0.50	0.55	1.02	1.67	GBP	1.59	-0.02	NZGB 4 1/2 04/15/27	2.98	0.02	10 year	3.28	0.01	
JPY	-0.04	-0.06	0.05	0.29	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.35	0.01	15 year	3.52	0.01	
CAD	1.25	1.17	2.18	2.69	CAD	2.34	0.02	NZGB 2 3/4 04/15/37	3.49	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 06:50

Source: Bloomberg

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