

21 May 2018



## Events Round-Up

JN: CPI ex fresh food (y/y%), Apr: 0.7 vs. 0.8 exp.  
 JN: CPI ex fresh food, energy (y/y%), Apr: 0.4 vs. 0.4 exp.  
 CA: CPI (y/y%), Apr: 2.2 vs. 2.3 exp.  
 CA: Retail sales ex auto, Mar: -0.2 vs. 0.5 exp.

## Good Morning

The NZD finished the week on a good note, rising on all major crosses against a backdrop of little news. UST yields fell steadily, ending the session 7bps lower from the high reached just before the NZ close.

Early on Friday reports came through that China had offered Trump measures aimed at reducing the US trade deficit with China by \$200b per annum. China disputed this report and over the weekend a joint US-China statement was made after a couple of days of trade negotiations. There was no reference to numerical targets, but "both sides agreed on meaningful increases in US agriculture and energy exports". In an interview, Treasury secretary Mnuchin said that fresh tariffs will not apply on Chinese imports to the US while the two parties are still negotiating. So it seems for now that common sense is prevailing and the risk of a major trade war has subsided.

In quiet trading conditions on Friday, US equities fell slightly, with the S&P500 down by 0.3%. The Russell 2000, a key small cap US index seen to be a better bellwether of how US Inc. is doing, rose to a record high for the cycle, enjoying the tailwinds of the US economic expansion.

The US 10-year Treasury rate traced a downward path soon after the NZ close, falling from a peak of 3.126% in the local trading session down to 3.056% at the NY close, a chunky 7bps move on a day with little newsflow. This might suggest a period of consolidation ahead after the recent sharp move up in rates.

The move in Treasuries seemed to be led by German 10-year bunds which ended the day down 6bps to 0.57%. No doubt Germany's bond market is attracting safe-haven flows as the risk premium for Italy has shot up after coalition negotiations have drawn to a close. Italy's 10-year rate piled on another 11bps as the populist leaders agreed on policy to form a new government. The final agreement excluded the original plan of proposing to exclude ECB-owned Italian bonds from debt-GBP ratios,

but it still went down a policy path of fiscal profligacy.

Currency markets were quiet but a notable outperformance of the NZD prevailed. The NZD ended the week close to 0.6920, up 0.7% from the NZ open with most of the gain coming after the NZ close. No obvious drivers were in play but the move doesn't surprise us in the context of the NZD looking a little oversold at sub-0.69 levels after a big positioning shakeout. CFTC data now shows net speculative positioning close to square.

The NZD was higher on all the crosses, with NZD/AUD back up through 0.92 as AUD/USD oscillated in directionless trade around 0.7510 for much of the day.

CAD was the weakest performer, which saw NZD/CAD move back up through 0.89. Canada's annual CPI inflation rate for April came at 2.2%, in 0.1% below the previous figure and market expectations. Released at the same time, core retail sales for March were much weaker than expected. NAFTA negotiations aren't going so well either, with US Trade rep. Lighthizer suggesting that the three nations are "nowhere near close to a deal".

The only other notable economic news for the day was Japan inflation continuing to linger well away from target, with annual ex fresh food CPI inflation underwhelming at 0.7% and ex fresh food and energy CPI inflation down at 0.4%. USD/JPY broke up through 111 and only the chunky rally in global bond rates saved it moving even higher, with lower yields supporting a move back down to 111.80. NZD/JPY closed the week up 0.5% to 76.5, adding another week where a sustained move sub-76 has proved to be a tough level to crack.

EUR continues to struggle against the backdrop of rising political risk in Italy. A fresh low for the year of 1.1750 was printed before buying interest returned. NZD/EUR ended the day up 0.8% at around 0.5875.

The new week looks like to get off to a quiet start, with a barren global economic calendar. In the day ahead, NZ Q1 retail sales data are released which are expected to show decent sales growth.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Net migration	Apr		5480	10:45
NZ	Retail sales ex inflation (q/q%)	Q1	1.0	1.7	10:45

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**					
Indicative overnight ranges (*)				Other FX			Major Indices				Price					
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day				
NZD	0.6919	+0.4	0.6885	0.6922	CHF	0.9980	-0.3			S&P 500	2,713	-0.3	13.9	Oil (Brent)	78.51	-1.0
AUD	0.7511	+0.0	0.7489	0.7528	SEK	8.754	+0.2			Dow	24,715	+0.0	18.8	Oil (WTI)	71.28	-0.2
EUR	1.1772	-0.2	1.1750	1.1822	NOK	8.121	+0.0			Nasdaq	7,354	-0.4	20.9	Gold	1291.3	+0.2
GBP	1.3469	-0.3	1.3455	1.3528	HKD	7.850	+0.0			Stoxx 50	3,574	-0.5	-0.4	HRC steel	880.0	-0.2
JPY	110.78	+0.0	110.61	111.08	CNY	6.380	+0.2			FTSE	7,779	-0.1	4.1	CRB	203.7	+0.1
CAD	1.2885	+0.6			SGD	1.343	+0.1			DAX	13,078	-0.3	3.5	Wheat Chic.	534.0	+4.0
NZD/AUD	0.9212	+0.6			IDR	14,156	+0.7			CAC 40	5,615	-0.0	5.4	Sugar	11.66	+0.9
NZD/EUR	0.5878	+0.8			THB	32.20	+0.3			Nikkei	22,930	+0.4	17.0	Cotton	86.55	+1.8
NZD/GBP	0.5137	+0.9			KRW	1,078	-0.3			Shanghai	3,193	+1.2	3.3	Coffee	118.0	+0.1
NZD/JPY	76.65	+0.5			TWD	29.91	+0.0			ASX 200	6,087	-0.1	6.3	WM powder	3215.0	+0.3
NZD/CAD	0.8915	+1.1			PHP	52.31	+0.1			NZX 50	8,657	+0.6	17.1	<b>Australian Futures</b>		
NZ TWI	73.01	+0.5												3 year bond	97.75	0.03
														10 year bond	97.13	0.05
<b>Interest Rates</b>																
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	2.33	2.79	3.09	USD	3.06	-0.06	NZGB 6 05/15/21	2.04	-0.00	1 year	2.07	0.00			
AUD	1.50	1.94	2.11	3.02	AUD	2.90	-0.02	NZGB 5 1/2 04/15/23	2.37	0.01	2 year	2.24	0.00			
NZD	1.75	2.00	2.22	3.28	NZD	2.86	0.02	NZGB 2 3/4 04/15/25	2.67	0.02	5 year	2.75	0.01			
EUR	0.00	0.06	-0.13	1.04	GER	0.58	-0.06	NZGB 4 1/2 04/15/27	2.86	0.02	7 year	3.01	0.01			
GBP	0.50	0.62	1.04	1.65	GBP	1.50	-0.06	NZGB 3 04/20/29	3.06	0.04	10 year	3.28	0.02			
JPY	-0.06	-0.02	0.05	0.29	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	3.24	0.04	15 year	3.55	0.02			
CAD	1.25	1.17	2.36	2.82	CAD	2.49	-0.03	NZGB 2 3/4 04/15/37	3.40	0.04						

\* 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: NY close Sat morning

Source: Bloomberg

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