

22 February 2018



Events Round-Up

AU: Wage price index (q/q%), Q4: 0.6% vs. 0.5% exp.

GE: Markit manufacturing PMI, Feb: 60.3 vs. 60.5 exp.

EC: Markit manufacturing PMI, Feb: 58.5 vs. 59.2 exp.

EC: Markit services PMI, Feb: 56.7 vs. 57.6 exp.

UK: Unemployment rate (%), Dec: 4.4% vs. 4.3% exp.

UK: Weekly earnings ex-Bonuses (y/y%), Dec: 2.5% vs. 2.4% exp.

US: Existing home sales (m), Jan: 5.38m vs. 5.62, exp.

Good Morning

US stocks moved higher overnight but, otherwise, market moves were reasonably subdued as we wait the release of the FOMC minutes in an hour or so. The US dollar is again a bit stronger against most of the major currencies, with the NZD sitting around 0.7345. The GBP has been buffeted by more Brexit talk, a mixed labour market report, and some hawkish comments from the BoE.

After opening weaker, the S&P 500 has recovered to be up around 0.6% today. The NASDAQ is up 0.7% and is sitting near 3 week highs while the VIX back below 20 as volatility has started to subside. The S&P 500 is still around 5% below its highs reached earlier this year.

US yields are broadly stable ahead of the much anticipated release of the minutes to the Fed's January meeting. The Fed changed the wording in its January statement by referring to *further* gradual increases in the Fed Funds rate. The market will look for clarification from the minutes on whether this change in wording signals any change to its tightening plans. New York Fed President Dudley's comments tonight will also be closely watched.

The USD is again stronger against most of the major currencies overnight, although the moves have been reasonably small. The German and European PMIs were a bit weaker than expected, which weighed on the EUR, but they remain at healthy levels and consistent with strong growth in the Eurozone. The NZD is around 0.7345 and has traded in a reasonably tight range.

The GBP had a relatively volatile night compared to most currencies. The GBP initially fell after the UK labour market report showed the UK unemployment rate

unexpectedly ticking up and employment grew less than expected. On the positive side, UK wages data surprised on the upside. The GBP then moved higher after hawkish comments from BoE Chief Economist Haldane who said the risks around their most recent projections were to the upside while *"the long-awaited – and we have been waiting for a long time – pickup in wages is starting to take root."* BoE Governor Carney, speaking in front of the Treasury Select Committee, wouldn't be pinned down on when he expected the next BoE rate rise, but the market places around an 80% probability it will be in May.

Meanwhile, the negotiations around a post-Brexit transitional deal continue to rumble away in the background. Leaked UK government documents overnight suggested the UK and EU were broadly aligned on most aspects of the transitional deal, which would include continued access to the single market and customs union over that period. But there remain differences between the two sides that need to be settled if the terms of the transitional deal is to be agreed by the end of March, as the UK government hopes. Theresa May continues to face infighting within her own party, with 62 of her Eurosceptic backbench MPs having recently sent a letter stating their demands for a transitional deal, including "full regulatory autonomy" (something the EU is highly unlikely to agree to). This Eurosceptic block of MPs have the numbers to force a leadership contest.

In Australia, the wage price index was slightly higher than expected, causing the AUD to appreciate and Australian bond yields to rise initially. But these moves subsequently unwound, with the AUD lower on the day and the worst performing major currency overnight. NZDAUD continues to move higher and at 0.9370 is at 6 month highs.

NZ swap rates fell modestly yesterday, in sympathy with the moves in Australian bond yields. The NZDMO tenders \$150m of the 2033 maturity NZGB today.

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Coming Up

	Period	Cons.	Prev.	NZT
US FOMC Meeting Minutes	1-Feb			08:00
NZ NZ to sell \$150m 2033 bonds				14:05
GE IFO expectations	Feb	107.9	108.4	22:00
UK GDP (q/q%)	Q4	0.5	0.5	22:30
EU ECB Publishes Account of Jan. 24-25 Policy meeting				01:30
US Fed's Dudley to speak at NY Fed Briefing on Puerto Rico				04:00
US Fed's Bostic speaks at banking conference in Atlanta				06:10

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	0.7345	-0.0	0.7326	0.7359	CHF	0.9375	+0.1		S&P 500	2,734	+0.6	15.6	Oil (Brent)	65.13	-0.1
AUD	0.7838	-0.6	0.7830	0.7864	SEK	8.094	-0.1		Dow	25,038	+0.6	20.7	Oil (WTI)	61.51	-0.4
EUR	1.2326	-0.1	1.2300	1.2340	NOK	7.847	-0.1		Nasdaq	7,287	+0.9	24.2	Gold	1330.4	+0.0
GBP	1.3967	-0.2	1.3905	1.4001	HKD	7.825	+0.0		Stoxx 50	3,430	-0.1	2.7	HRC steel	748.0	-0.4
JPY	107.63	+0.3	107.34	107.87	CNY	6.342	+0.0		FTSE	7,282	+0.5	0.1	CRB	193.4	+0.1
CAD	1.2669	+0.2			SGD	1.321	+0.1		DAX	12,470	-0.1	4.2	Wheat Chic.	477.0	-0.3
NZD/AUD	0.9371	+0.5			IDR	13,618	+0.0		CAC 40	5,302	-0.0	8.5	Sugar	13.25	+0.1
NZD/EUR	0.5959	+0.1			THB	31.49	-0.1		Nikkei	21,971	+0.2	13.4	Cotton	79.63	+1.4
NZD/GBP	0.5259	+0.2			KRW	1,076	+0.3		Shanghai	3,199	+0.4	-0.4	Coffee	119.0	-0.6
NZD/JPY	79.05	+0.2			TWD	29.20	+0.2		ASX 200	5,944	+0.0	2.6	WM powder	3200.0	+0.0
NZD/CAD	0.9305	+0.1			PHP	52.09	-0.3		NZX 50	8,200	+1.3	15.2	Australian Futures		
NZ TWI	75.60	+0.1											3 year bond	97.855	0.03
													10 year bond	97.14	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	1.90	2.51	2.92	USD	2.90	0.01	NZGB 3 04/15/20	1.86	-0.01	1 year	2.01	0.00		
AUD	1.50	1.77	2.04	3.02	AUD	2.86	-0.04	NZGB 6 05/15/21	2.06	-0.01	2 year	2.17	-0.01		
NZD	1.75	1.92	2.17	3.26	NZD	2.96	-0.02	NZGB 5 1/2 04/15/23	2.41	-0.01	5 year	2.72	-0.01		
EUR	0.00	0.06	-0.12	1.13	GER	0.72	-0.01	NZGB 2 3/4 04/15/25	2.75	-0.01	7 year	2.99	-0.01		
GBP	0.50	0.55	1.03	1.64	GBP	1.56	-0.03	NZGB 4 1/2 04/15/27	2.96	-0.02	10 year	3.26	-0.02		
JPY	-0.04	-0.07	0.05	0.28	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.32	-0.03	15 year	3.51	-0.02		
CAD	1.25	1.17	2.17	2.67	CAD	2.33	0.01	NZGB 2 3/4 04/15/37	3.46	-0.03					

* 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 07:09

Source: Bloomberg

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