

22 March 2018



Events Round-Up

NZ: Net migration, Feb: 4970 vs. 6270 prev.
UK: Avg weekly earns. (y/y%), Jan: 2.8 vs. 2.6 exp.
UK: Unemployment rate (%), Jan: 4.3 vs. 4.4 exp.
US: Existing home sales (m), Feb: 5.54 vs. 5.40 exp.
US: Fed Funds rate (%), Mar: 1.5-1.75 vs. 1.5-1.75 exp.

Good Morning

The USD took on a softer tone ahead of the FOMC statement and has made further losses since, while UST yields have nudged higher.

The FOMC statement just released looks very close to market expectations. The Fed hiked rates for a sixth time this cycle and continued to project a total of 3 hikes for this year. The median Fed Funds projection for 2019 was lifted by 0.2% (so now 3 hikes) and for 2020 by 0.3% (so now 2 hikes). The long run projection was raised by 0.125% to 2.875%. The statement acknowledged the strengthened economic outlook and left language on near-term risks as “roughly balanced”, while the central tendency for core PCE inflation forecasts was revised up a touch across the next few years.

The statement and projections reaffirm the case that US monetary policy remains on a clear tightening path and based on the Fed’s view the tightening cycle has some way to go yet. Market reaction has been modest so far, with US 10-year Treasury yields 3bps higher to 2.93% adding to the 2bps increase seen since the NZ close. The USD was already on a weaker path in overnight trading and has made further modest losses since the Statement. We now await new Fed Chair Powell’s post-FOMC press conference for further colour.

In other news, the WSJ reported that China is prepared to retaliate against US import tariffs with a “measured and proportional response” depending on how broadly-based US tariffs are. According to sources, China seeks to avert tariffs by warning of possible repercussions and offering incentives to the US including better access to China’s markets, especially in the financial sector. The White House plans to announce new tariffs against China later this week.

CAD was stronger after reports of the US backing down on a contentious NAFTA issue with regards to the auto sector – that all vehicles made in Canada and Mexico for

export to the US contain at least 50% US content. CAD was further aided by another 2½% gain in oil prices taking them to a 6-week high as reported US crude inventories were much weaker than expected. Taking into account further losses in the USD post FOMC, USD/CAD is down over 1% to 1.2930.

UK labour market data were stronger than expected, with the unemployment rate lower, matching the lowest rate since 1975, and wages inflation picking up. Following on from the positive news of a Brexit transitional deal earlier this week, GBP was stronger and the market became more convinced that the BoE would hike rates in May. GBP is up 0.8% to just over the 1.41 mark. Tonight, the Bank of England is expected to vote 9-0 to keep policy on hold and keep alive the possibility of a rate hike at the next meeting in May.

The NZD was on the soft side through yesterday as it hovered near key support at 0.7175 and the 200-moving average of 0.7180. Weaker net migration data – the lowest monthly total in 3-years (sub 60k annualised rate) was the straw that broke the camel’s back that saw it breach that technical support. In overnight trading, the NZD had a run down to as low as 0.7154 as that WSJ report on China trade retaliation came out, before a new support level emerged, bobbing around 0.7155 for over an hour before climbing back up. A further modest gain post FOMC sees the NZD back above the 0.72 mark..

Reflecting the general underperformance of the NZD, NZD/AUD is edging down towards 0.93, NZD/GBP is down towards 0.51 and NZD/EUR is down a touch to 0.5860. JPY has been on the soft side, seeing NZD/JPY up a touch to 76.7.

The RBNZ’s OCR Review at 9am should be a non-event for the market. The statement is expected to show only minor tweaks from last month, leaving the final paragraph unchanged. Being the last statement by the outgoing Spencer makes it even less relevant for the market. Governor-in-waiting Orr soon takes over and his views on the policy outlook, which remain unknown, matter much more for the outlook of monetary policy.

Australian employment data this afternoon offer their usual chance to inject some volatility into the market. A number of PMI figures are also released tonight.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ RBNZ OCR (%)	Mar	1.75	1.75	09:00
AU Employment change ('000)	Feb	20	16	13:30
AU Unemployment rate (%)	Feb	5.5	5.5	13:30
GE Markit manufacturing PMI	Mar	59.8	60.6	21:30
GE Markit services PMI	Mar	55.0	55.3	21:30
EC Markit manufacturing PMI	Mar	58.1	58.6	22:00
EC Markit services PMI	Mar	56.0	56.2	22:00
GE IFO expectations	Mar	104.4	105.4	22:00
UK Retail sales ex auto fuel (m/m%)	Feb	0.4	0.1	22:30
UK BoE bank rate (%)	Mar	0.5	0.5	01:00
US Markit manufacturing PMI	Mar	55.5	55.3	02:45
US Markit services PMI	Mar	56.0	55.9	03:45

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	0.7200	+0.2	0.7154	0.7191	CHF	0.9535	-0.3	S&P 500	2,735	+0.6	16.7	Oil (Brent)	69.41	+2.9
AUD	0.7735	+0.7	0.7672	0.7721	SEK	8.221	-0.0	Dow	24,857	+0.5	20.3	Oil (WTI)	65.14	+2.5
EUR	1.2287	+0.4	1.2257	1.2296	NOK	7.735	-0.1	Nasdaq	7,368	+0.1	27.2	Gold	1325.7	+1.0
GBP	1.4094	+0.7	1.4003	1.4085	HKD	7.846	+0.0	Stoxx 50	3,401	-0.3	-0.8	HRC steel	822.0	+0.0
JPY	106.61	+0.1	106.09	106.48	CNY	6.323	-0.2	FTSE	7,039	-0.3	-4.6	CRB	196.0	+1.0
CAD	1.2942	-1.0			SGD	1.316	-0.3	DAX	12,309	+0.0	2.9	Wheat Chic.	469.5	+0.2
NZD/AUD	0.9308	-0.5			IDR	13,761	+0.1	CAC 40	5,240	-0.1	4.7	Sugar	12.67	+0.8
NZD/EUR	0.5860	-0.2			THB	31.21	+0.0	Nikkei	21,381	-0.5	9.9	Cotton	82.59	-0.5
NZD/GBP	0.5109	-0.5			KRW	1,072	+0.3	Shanghai	3,281	-0.3	1.1	Coffee	118.9	-0.0
NZD/JPY	76.76	+0.3			TWD	29.19	+0.1	ASX 200	5,950	+0.2	4.7	W/M powder	3165.0	+1.8
NZD/CAD	0.9318	-0.8			PHP	52.12	+0.1	NZX 50	8,608	+1.4	21.9	Australian Futures		
NZ TWI	74.28	-0.0										3 year bond	97.77	-0.07
												10 year bond	97.22	-0.06
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	1.75	2.25	2.67	2.98	USD	2.93	0.04	NZGB 6 05/15/21	2.06	0.02		1 year	2.09	0.01
AUD	1.50	1.98	2.12	2.97	AUD	2.70	-0.00	NZGB 5 1/2 04/15/23	2.35	0.02		2 year	2.25	0.01
NZD	1.75	1.96	2.28	3.19	NZD	2.84	0.01	NZGB 2 3/4 04/15/25	2.62	0.01		5 year	2.72	0.01
EUR	0.00	0.06	-0.15	1.04	GER	0.59	0.01	NZGB 4 1/2 04/15/27	2.84	0.01		7 year	2.95	0.01
GBP	0.50	0.62	1.13	1.64	GBP	1.53	0.04	NZGB 3 04/20/29	3.00	0.02		10 year	3.19	0.00
JPY	-0.06	-0.05	0.05	0.26	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.20	0.02		15 year	3.44	0.00
CAD	1.25	1.17	2.26	2.67	CAD	2.29	0.08	NZGB 2 3/4 04/15/37	3.35	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 07:36

Source: Bloomberg

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