

23 April 2018



Events Round-Up

JN: CPI ex-fresh food (y/y%), Mar: 0.9% vs. 0.9% exp.

CA: CPI (y/y%), Mar: 2.3% vs. 2.4% exp.

CA: Core CPI – common (y/y%), Mar: 1.9% vs. 2% exp.

Good Morning

US Treasury yields rose again on Friday, with the 10 year yield up to 2.96%, its highest since early 2014. Equities fell again, with higher bond yields probably weighing, and the USD strengthened. The NZD is back down near to 0.72. Over the weekend, US Treasury Secretary Mnuchin mentioned he was considering a trip to China and was “cautiously optimistic” a deal could be reached; this should help support risk assets to start the week.

The US bond market was back in focus Friday, with the 10 year Treasury yield breaking above its year-to-date highs and closing at 2.96%, up 5bps on the day. The 10 year yield rose 40bps in January, but had been consolidating within a range since then. The latest move up in yields towards 3% appears to have been driven by the recent rise in commodity prices which has boosted inflation expectations (the 10 year breakeven inflation rate is also at its highest level since 2014). There was no major economic data released on the day.

Commodity price moves were actually reasonably modest on Friday, with Brent crude oil around flat on the day. President Trump took to twitter to rail against OPEC’s supply cuts, calling oil prices “*artificially Very High*”, causing oil prices to drop temporarily. But prices recovered with OPEC members and Russia pushing back on Trump’s claim and generally giving the impression that they had no intention of easing up on the supply cuts. Saudi Arabia’s Oil minister said “*I have not seen any impact on demand with current prices*” and mentioned that OPEC+ would continue its cooperation in 2019, raising the prospect the supply cuts could be kept in place beyond their scheduled end date at the end of this year.

Elsewhere, Baker Hughes reported that another three oil rigs were added last week in the US, taking the total number of active oil wells in the US to the highest since March 2015. The increase in shale oil capacity hasn’t done much to dent prices however, and on Friday Schlumberger Ltd. (the largest oilfield services company) warned that “*production challenges in US shale are*

emerging”. Those comments highlight the risk that shale oil may not be quite as effective in keeping prices down as the market had previously anticipated.

The rise in yields probably weighed on US equity indices, with the S&P 500 down 0.85% and the NASDAQ 1.3% lower. The latter was weighed down by Apple, which fell more than 4%, as concerns mounted about a slowdown in iPhone sales (one of Apple’s main suppliers, TSMC, reported lower than expected earnings on Thursday and warned of weak demand). The corporate earnings season really kicks into gear this week, with more than a third of S&P500 companies reporting. So far, 85% have beaten analyst expectations.

There have been some positive comments from US and Chinese officials about trade relations over the weekend, which should help support equities and other risk assets to start the week. Speaking on the sidelines of the IMF’s spring meetings, US Treasury Secretary Mnuchin said he was engaged in a “*dialogue*” with the Chinese government and was “*cautiously optimistic*” of reaching an agreement to avert trade tariffs. He also said he was considering a trip to China. Meanwhile, the Governor of the PBOC spoke about China’s intention to allow more foreign access to Chinese markets, protect intellectual property and expand imports, all of which should help placate President Trump, if followed through on.

The USD was stronger across the board for a second day running. The Bloomberg DXY was around 0.5% higher, and is now approaching the upper end of the trading range it’s been in since late January. The rise in US yields probably helped the USD on the day, although the relationship between the USD and interest rate differentials has become increasingly unhinged since late last year.

The EUR fell below 1.23 on Friday, a two week low, with media reporting that ECB members were considering waiting until July to change their forward guidance on QE. According to the sources, some ECB members reportedly wanted to wait for more evidence that the economy was recovering from its recent soft patch of data. Speaking in Washington, ECB President Draghi acknowledged that “*the growth cycle may have peaked*” but said “*growth momentum is expected to continue*” and reiterated his confidence inflation would eventually move to target. The European PMIs this week take on more significance than usual given the recent slowing in European data.

Commodity currencies were among the worst performers

on Friday, with the NZD down almost 1%, the weakest currency in G10. The decline in equities and modest increase in risk aversion may have played a part (the JPY and Swiss franc were the outperformers on the day). We have also been highlighting the build-up in net long NZD positions among speculative investors, which may have contributed to the NZD's underperformance over recent days. Governor Adrian Orr has been speaking to several media outlets over the weekend on a range of topics, but besides reiterating the Bank's continued forward-looking focus on the 2% CPI mid-point, hasn't given too much away on his monetary policy intentions.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	Markit Germany Manufacturing PMI	Apr P	57.5	58.2	19:30
EC	Markit Eurozone Manufacturing PMI	Apr P	56	56.6	20:00
EC	ECB's Coeure Speaks in Frankfurt				02:00
US	Existing Home Sales	Mar	5.55	5.54	02:00

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	0.7207	-0.9	0.7201	0.7242	CHF	0.9746	+0.3	S&P 500	2,670	-0.9	13.7	Oil (Brent)	74.06	+0.4
AUD	0.7672	-0.8	0.7655	0.7717	SEK	8.446	+0.5	Dow	24,463	-0.8	19.1	Oil (WTI)	68.40	-0.4
EUR	1.2288	-0.5	1.2250	1.2353	NOK	7.823	+0.4	Nasdaq	7,146	-1.3	20.9	Gold	1338.3	-0.8
GBP	1.4000	-0.6	1.4007	1.4082	HKD	7.844	-0.1	Stoxx 50	3,494	+0.2	1.6	HRC steel	870.0	+1.3
JPY	107.66	+0.3	107.48	107.86	CNY	6.296	+0.3	FTSE	7,368	+0.5	3.6	CRB	201.9	+0.0
CAD	1.2761	+0.7			SGD	1.316	+0.4	DAX	12,541	-0.2	4.1	Wheat Chic.	495.8	-2.5
NZD/AUD	0.9394	-0.1			IDR	13,893	+0.8	CAC 40	5,413	-0.3	7.0	Sugar	11.87	-0.7
NZD/EUR	0.5865	-0.4			THB	31.35	+0.4	Nikkei	22,162	-0.1	19.0	Cotton	84.73	+2.3
NZD/GBP	0.5148	-0.3			KRW	1,067	+0.5	Shanghai	3,072	-1.5	-3.2	Coffee	117.7	+1.2
NZD/JPY	77.59	-0.6			TWD	29.41	+0.2	ASX 200	5,869	-0.2	0.3	WM powder	3285.0	+0.3
NZD/CAD	0.9197	-0.2			PHP	52.11	+0.1	NZX 50	8,323	-0.6	15.6	Australian Futures		
NZ TWI	74.52	-0.5										3 year bond	97.7	-0.02
												10 year bond	97.14	-0.05

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	2.36	2.74	3.00	USD	2.96	0.05	NZGB 6 05/15/21	2.13	0.01	1 year	2.15	-0.02
AUD	1.50	2.07	2.18	3.02	AUD	2.81	0.02	NZGB 5 1/2 04/15/23	2.41	0.02	2 year	2.31	-0.01
NZD	1.75	2.06	2.31	3.22	NZD	2.87	0.03	NZGB 2 3/4 04/15/25	2.67	0.02	5 year	2.76	0.01
EUR	0.00	0.06	-0.14	1.02	GER	0.59	-0.01	NZGB 4 1/2 04/15/27	2.87	0.03	7 year	2.98	0.02
GBP	0.50	0.79	1.11	1.60	GBP	1.48	-0.04	NZGB 3 04/20/29	3.05	0.02	10 year	3.22	0.02
JPY	-0.06	-0.04	0.06	0.28	JPY	0.06	0.02	NZGB 3 1/2 04/14/33	3.25	0.02	15 year	3.48	0.03
CAD	1.25	1.17	2.28	2.71	CAD	2.34	0.02	NZGB 2 3/4 04/15/37	3.44	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 New York Close

Source: Bloomberg

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