

23 February 2018



Events Round-Up

GE: IFO expectations, Feb: 105.4 vs. 107.9 exp.

UK: GDP (q/q%), Q4: 0.4% vs. 0.5% exp.

US: Jobless Claims, Feb: 222k vs. 230k exp.

Good Morning

US equities are higher, bond yields a bit lower, and the US dollar weaker as markets have retraced the moves seen after the FOMC minutes yesterday (which were initially interpreted as hawkish). The ECB minutes suggested that the central bank's forward guidance will change in the upcoming meetings. The NZD is unchanged from this time yesterday.

Shortly after we sent yesterday's Report, the minutes to the January FOMC meeting were released. The minutes noted that a number of Fed officials had increased their growth forecasts since December. Since then, US wage and inflation data has surprised on the upside, implying that the risks are tilted towards the Fed nudging up their rate projections (i.e. the 'dots') at the March meeting. US yields moved higher after the minutes, with the 10 year rate hitting 2.95% although these moves have subsequently reversed overnight (the 10 year rate is back to 2.915%), probably due to profit-taking from investors. The short end of the US Treasury curve has been reasonably stable and the market continues to price just less than 3 hikes for this year.

The US stock market reacted negatively to the release of the Fed minutes and the move higher in Treasury yields. The S&P 500, which had been up 1.2% on the day, fell sharply to close down 0.6%. As with the bond market, US stocks have recovered overnight, with the S&P 500 up around 1%.

The US dollar strengthened across the board after the Fed minutes but it has given up most of those gains overnight. The EUR reached a low of 1.2260 overnight but it has since recovered to 1.2330, similar levels to this time yesterday. The ECB minutes overnight noted that "*some members expressed a preference for dropping the easing bias*" for QE (i.e. that QE can be increased if conditions worsen), but this was judged premature. In one of the next few meetings, the ECB will probably announce an end to QE in September (QE is currently scheduled to run until September, "or beyond, if necessary"). The EUR has

risen since the release of the ECB minutes, although broadly in line with other currencies against the USD. Bund yields have been reasonably stable since the ECB minutes were released.

European Commission President Juncker warned of possible volatility in financial markets due to the upcoming election in Italy (4th March) and the SPD's internal vote on the proposed coalition agreement with Merkel's CDU. Pollsters report that the proportion of undecided voters for the Italian election is very high (30%-45%) and there is no party with a clear majority. Italian bond spreads have started widening against German bunds the last few weeks, although they remain towards the tight-end of the range seen the past 12 months.

UK GDP was a bit softer than expected overnight, although it didn't have much impact on the GBP. Theresa May's divided cabinet meets shortly to agree on a strategy for post-Brexit relations with the EU. The near-term focus for the market is on a transitional deal between the UK and EU, which they hope to agree before the end of March (we expect a transitional deal to boost the GBP and help NZD/GBP move lower this year).

The NZD is just below 0.7350, similar to where it was this time yesterday. The NZD/AUD has fallen a little overnight, to 0.9360, although it remains near to 6 month highs. In the day ahead, we receive NZ retail sales where we are looking for an above consensus 1.7% increase.

NZ swap yields moved a little higher yesterday, but again by less than the US. The spread between 10 year NZ and US government bonds reached just 3bps (the spread between Australian and US 10 year bonds is -6bps). The NZDMO's tender of 2033 maturity bonds went well, with a bid to cover ratio over 3.

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Coming Up

		Period	Cons.	Prev.	NZT	
NZ	Retail Sales Ex Inflation	QoQ	4Q	1.4	0.2	10:45
JN	Natl CPI Ex Fresh Food, Energy	YoY	Jan	0.3	0.3	12:30
EC	CPI Core	YoY	Jan F	1	1	23:00
CA	CPI Core- Common	YoY%	Jan	1.7	1.6	02:30
US	Fed releases Monetary Policy Report to Congress					05:00
US	Fed's Williams Speaks on Outlook for U.S. Economy					09:40

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)				Other FX			Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7348	+0.4	0.7309	0.7365	CHF	0.9339	-0.6		S&P 500	2,729	+0.7	15.5	Oil (Brent)	66.20	+1.3
AUD	0.7850	+0.6	0.7795	0.7860	SEK	8.120	-0.0		Dow	25,121	+1.0	20.9	Oil (WTI)	62.70	+1.8
EUR	1.2333	+0.4	1.2260	1.2352	NOK	7.862	-0.2		Nasdaq	7,268	+0.4	24.0	Gold	1331.8	+0.0
GBP	1.3958	+0.3	1.3857	1.3959	HKD	7.825	-0.0		Stoxx 50	3,432	+0.1	2.8	HRC steel	746.0	-0.3
JPY	106.84	-0.9	106.65	107.61	CNY	6.353	+0.2		FTSE	7,252	-0.4	-0.7	CRB	195.2	+0.6
CAD	1.2709	+0.0			SGD	1.319	-0.4		DAX	12,462	-0.1	3.9	Wheat Chic.	478.0	+0.4
NZD/AUD	0.9361	-0.2			IDR	13,685	+0.5		CAC 40	5,309	-0.5	8.4	Sugar	13.42	+2.4
NZD/EUR	0.5958	+0.0			THB	31.49	-0.2		Nikkei	21,736	-1.1	12.2	Cotton	79.72	-1.4
NZD/GBP	0.5264	+0.1			KRW	1,084	+0.7		Shanghai	3,269	+2.2	1.7	Coffee	120.5	+1.6
NZD/JPY	78.51	-0.5			TWD	29.26	+0.2		ASX 200	5,951	+0.1	2.5	WMI powder	3205.0	+0.2
NZD/CAD	0.9339	+0.5			PHP	52.13	+0.1		NZX 50	8,267	+0.8	17.1	Australian Futures		
NZ TWI	75.66	+0.2											3 year bond	97.88	0.03
													10 year bond	97.17	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	1.50	1.92	2.51	2.93	USD	2.91	-0.04	NZGB 3 04/15/20	1.88	0.02	1 year	2.02	0.01
AUD	1.50	1.77	2.02	3.01	AUD	2.87	0.01	NZGB 6 05/15/21	2.07	0.01	2 year	2.19	0.01
NZD	1.75	1.93	2.19	3.28	NZD	2.98	0.02	NZGB 5 1/2 04/15/23	2.43	0.01	5 year	2.73	0.01
EUR	0.00	0.06	-0.11	1.13	GER	0.71	-0.02	NZGB 2 3/4 04/15/25	2.76	0.01	7 year	3.01	0.01
GBP	0.50	0.56	1.03	1.64	GBP	1.55	-0.01	NZGB 4 1/2 04/15/27	2.98	0.02	10 year	3.28	0.02
JPY	-0.04	-0.07	0.05	0.27	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.34	0.02	15 year	3.52	0.02
CAD	1.25	1.17	2.15	2.66	CAD	2.30	-0.05	NZGB 2 3/4 04/15/37	3.48	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 07:04

Source: Bloomberg

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