

23 January 2018



Events Round-Up

No major economic data nor central bank speeches

Good Morning

Around an hour ago, US Senate leaders announced that they had agreed a deal to end the US government shutdown. Markets hadn't been particularly phased in any event. US stocks had pushed ahead to new record highs and the VIX index of equity volatility had fallen since the shutdown went into effect on Friday night. The USD is generally weaker again and that has seen the NZD back above 0.73. US bond yields have stabilised after reaching their highest levels since 2014.

With no major economic data overnight, the market's main focus has been the ongoing stand-off over funding the US government. The US government went into shutdown at midnight Friday for the first time since 2013 after Senate Republicans failed to secure the 60 votes needed to provide funding for the US government. The Republicans have a 51-49 majority in the Senate but need bipartisan support to pass the funding measure. Democrats had been refusing to vote for the funding measure because of concerns about the potential deportation of the so-called "dreamers", or children who had immigrated to the US illegally. But after negotiations between moderate senators from both parties, the Democrat Senate leader, Mitch McConnell, announced a short while ago that they had agreed a deal to provide funding for the government in exchange for Republican assurances that the Senate will consider legislation on the dreamers. The stop-gap measure will only fund the government until February the 8th, meaning we may be back in the same position in a little over two weeks' time. The more important event ahead is the US debt ceiling, which is expected to be hit at some point in March and will need to be extended.

The market had largely brushed off the government shutdown with US stocks moving ahead of fresh record highs on Tuesday, before the agreement was announced. The S&P 500 has increased a little further after the Senate deal was struck, and is now up 0.5% on the day. The equity market focus this week is on US earnings, with around 80 companies reporting this week and around 120 next week. Analysts' estimates of S&P 500 earnings for 2018 have already risen 4% so far this year amid strengthening global growth, a weakening USD and

optimism about the effect of corporate tax cuts. The IMF overnight upgraded its estimates for global growth for this year and next by 0.2%, to 3.9%, its best level since 2011.

US bond yields were reasonably stable overnight after having hit three year highs on Monday. The 10 year bond yield is around 2.65%, just below its intraday high yesterday of 2.67%, and up 25bps this year.

The rise in US yields still hasn't had much impact on the USD, which was again broader weaker overnight. The broad trade-weighted USD sits near to its lowest level in two and a half years. The NZD has been a beneficiary of the USD weakness, and it has risen back to a little above 0.73. The backdrop of improving global growth, rising risk appetite and strengthening commodities have all supported the NZD.

The EUR was little changed against the USD overnight but remains near its highest level in three years, above 1.22. Over the weekend, the SPD agreed to open coalition negotiations with Angela Merkel's governing CDU in a bid to finally form a German government (the election was held in September). The EUR popped higher on the open on Monday in response to the news, but has since fallen back. The major focus for the EUR this week will be the ECB meeting. The minutes to the ECB's December meeting noted that the central bank intended to change its guidance around monetary policy early this year, but we think March is a more likely time for the ECB to give such a message. Markets will be listening out for any comments from President Draghi on the EUR after its recent rise.

The GBP was the strongest currency overnight and has almost reached 1.40, its highest level since Brexit (it was a similar level just days before the referendum). There wasn't much UK specific news overnight, although French President Macron visited the UK over the weekend and noted that a "special" trade deal was possible. While such a trade agreement would fall short of the full Single Market access the UK currently has, he implied a bespoke trade agreement could be better than most the EU has negotiated with other countries. We remain positive on the GBP this year, and negative on NZDGBP, as we expect a transitional agreement to be struck that will keep the UK in the EU for another few years after the 2019 deadline.

Locally, the main focus in the week ahead is NZ CPI on Thursday. We're expecting a 0.4% increase on the quarter, in line with consensus, bringing the annual rate to 1.9%. In the day ahead, we get the Services PMI.

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Dec		57.7	10:30
UK	Retail sales ex auto fuel (y/y%)	Dec	2.6	1.5	22:30
US	Fed's Bostic speaks on US economy				02:45
US	U. of Mich. consumer sent.	Jan P	97	95.9	04:00

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		Last	Net Day	
NZD	0.7307	+0.4	0.7271	0.7329	CHF	0.9630	+0.0		S&P 500	2,825	+0.5	24.4	Oil (Brent)	68.63	+0.0
AUD	0.8004	+0.1	0.7985	0.8027	SEK	8.032	-0.3		Dow	26,143	+0.3	31.9	Oil (WTI)	63.20	-0.3
EUR	1.2244	+0.2	1.2214	1.2267	NOK	7.871	+0.1		Nasdaq	7,387	+0.7	33.0	Gold	1331.6	-0.1
GBP	1.3960	+0.7	1.3858	1.3970	HKD	7.818	+0.0		Stoxx 50	3,665	+0.4	11.1	HRC steel	679.0	+0.6
JPY	111.12	+0.3	110.66	111.22	CNY	6.405	+0.0		FTSE	7,715	-0.2	7.2	CRB	195.7	+0.1
CAD	1.2460	-0.3			SGD	1.320	-0.1		DAX	13,464	+0.2	15.8	Wheat Chic.	438.5	+0.7
NZD/AUD	0.9129	+0.3			IDR	13,350	+0.3		CAC 40	5,542	+0.4	14.3	Sugar	13.21	-0.3
NZD/EUR	0.5968	+0.3			THB	31.86	+0.0		Nikkei	23,816	+0.0	26.1	Cotton	83.43	+0.0
NZD/GBP	0.5234	-0.3			KRW	1,070	+0.4		Shanghai	3,501	+0.4	11.6	Coffee	122.8	+1.3
NZD/JPY	81.20	+0.7			TWD	29.23	-0.5		ASX 200	5,992	-0.2	6.8	WM powder	3120.0	-0.5
NZD/CAD	0.9105	+0.2			PHP	50.87	+0.3		NZX 50	8,335	+0.5	17.9	Australian Futures		
NZ TWI	75.25	+0.4											3 year bond	97.715	0.01
													10 year bond	97.14	0.02
Interest Rates					Benchmark 10 Yr Bonds			NZ Government Bonds			NZ Swap Yields				
	Rates		Swap Yields		Last		Net Day			Last		Last			
	Cash	3Mth	2 Yr	10 Yr											
USD	1.50	1.74	2.27	2.69	USD	2.65	-0.01		NZGB 3 04/15/20	2.04	0.00	1 year	2.01	-0.01	
AUD	1.50	1.80	2.10	3.02	AUD	2.86	-0.00		NZGB 6 05/15/21	2.24	0.00	2 year	2.25	-0.01	
NZD	1.75	1.88	2.24	3.29	NZD	2.98	0.00		NZGB 5 1/2 04/15/23	2.51	0.00	5 year	2.78	0.00	
EUR	0.00	0.06	-0.14	0.98	GER	0.57	-0.00		NZGB 2 3/4 04/15/25	2.77	0.00	7 year	3.04	0.01	
GBP	0.50	0.52	0.88	1.44	GBP	1.36	0.02		NZGB 4 1/2 04/15/27	2.98	0.00	10 year	3.30	0.01	
JPY	-0.04	-0.03	0.05	0.29	JPY	0.08	-0.01		NZGB 3 1/2 04/14/33	3.29	0.00	15 year	3.54	0.02	
CAD	1.25	1.17	2.17	2.58	CAD	2.24	0.00		NZGB 2 3/4 04/15/37	3.44	0.00				

* 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 07:00

Source: Bloomberg

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