

23 March 2017

Events Round-Up

JN: Trade balance (¥bn), Feb: 813 vs. 807 exp.

US: Existing home sales (mn), Feb: 5.48 vs. 5.56 exp.

Good Morning

There is little to report today, with modest market movements after yesterday's price action. Yesterday, the S&P500 ended the day down 1.2%, its largest fall since Trump was elected and in the end recording the most days without a fall of more than 1% in 22 years. That statistic highlights how low volatility has been over recent months. The VIX index "fear" gauge is still considered historically low around the 12.6 mark.

The lack of support for Trump's health bill was a clear driver of that fall and today we read of further reports of Trump scrambling to get the numbers ahead of tomorrow's vote. He's not there yet. If Trump doesn't get the numbers to repeal Obamacare then the vote won't take place tomorrow and it'll highlight the lack of ability of Trump to achieve what he wants going forward, including tax reform. In that case, expect a further unwind of the Trump rally, meaning lower equities, a lower USD and lower US Treasury yields.

So the market awaits developments on that front. The S&P500 is unchanged as we write, the USD is a touch softer and US Treasury yields are a touch lower.

The yen remains the biggest beneficiary of falling global yield environment, which has seen USD/JPY dip below 111. NZD/JPY is down to 78.4, probing levels not seen since late-November.

The NZD itself is holding up, trading in a tight range of circa 0.7020-0.7070 over the last 24 hours and at the top of the range ahead of the RBNZ OCR review this morning. That ought to be a non-event, with the Bank likely unwilling to drop its neutral policy stance despite most folk outside the Bank believing overwhelmingly that the next move is much more likely to be a hike than a cut.

Let's see if the Bank acknowledges that inflation is tracking higher than it previously forecast. A recent development has been a significant fall in oil prices, which will give the Bank some breathing space on inflation. Brent crude fell below \$50 a barrel for the first time since late November as surging US inventories dim optimism that OPEC and its partners will curb output enough to rebalance the market.

Softer oil prices and other hard commodities see the AUD

slip further. We've been puzzled by AUD strength recently and it has been well overdue for some underperformance. AUD/USD is down to 0.7680, helping NZD/AUD push up through 0.92, well up from last week's low of 0.9074 but still well down from the 0.96 level seen as recently as last month. The better GDT dairy auction yesterday has improved sentiment for the NZD. The NZX whole milk powder April contract ended up 10.8% higher yesterday, following the surprisingly strong GDT auction, closing the day at \$2880.

GBP is flat at 1.2480, seeing only a temporary blip as reports of a suspected terror attack with one dead came through early this morning. EUR is also flat at 1.0810.

Global bond yields are lower, supported by reduced risk appetite. German 10-year bunds are down 5bps to 0.40%. US Treasury yields are lower across the curve with the 2-year rate down 1bp to 1.25% and the 10-year rate down 2bps to 2.40%. If Trump doesn't pass his health bill then that delays or significantly reduces the scope of his tax reform package, reduces the chance of a deficit blowout and reduces the need for the Fed to tighten policy as much as feared. All of that is supportive for US Treasuries.

The local yield curve flattened yesterday, with traders not keen to take the 2-year swap rate any lower ahead of the RBNZ announcement this morning, while global forces drove rates down at the longer end of the curve, taking the 10-year swap rate down 4bps to 3.455%. Thus, the 2s10s spread has contracted to 109bps, down some 20bps or so over the past week.

Ahead of the RBNZ meeting, the OIS curve is pricing little chance of a change in the OCR over the next six months, with the November meeting priced at 1.845%, suggesting a 38% chance of a hike by then. This probability has been creeping down over the last week or so, after spending a full month around the 50% mark. The market has lost some faith that the RBNZ will be ready to hike this year. The first full hike is not priced until March next year, obviously still a lot earlier than the RBNZ believes (some 18 months earlier) and only a fraction earlier than BNZ economists believe.

After the RBNZ announcement is out of the way, the market will be anticipating Fed Chair Yellen's speech tonight, although she is unlikely to reveal any fresh insights following last week's press conference. More important for the market will be how Trump's health bill vote is looking.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ RBNZ Official Cash Rate	Mar	1.75	1.75	09:00
GE GfK Consumer Confidence	Apr	10	10	20:00
UK Retail Sales Ex Auto Fuel YoY	Feb	3.2	2.6	22:30
US Fed's Yellen Speaks				01:00
US Initial Jobless Claims		240	241	01:30
US New Home Sales	Feb	565	555	03:00
EC Consumer Confidence	Mar A	-5.9	-6.2	04:00

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	0.7070	+0.4	0.7019	0.7072	CHF	0.9911	-0.3	S&P 500	2,346	+0.1	14.5	Oil (Brent)	50.80	-0.3
AUD	0.7679	-0.2	0.7639	0.7685	SEK	8.794	-0.0	Dow	20,638	-0.2	17.4	Oil (WTI)	48.12	-0.2
EUR	1.0810	-0.0	1.0776	1.0825	NOK	8.467	+0.0	Nasdaq	5,809	+0.2	20.5	Gold	1249.6	+0.3
GBP	1.2480	+0.0	1.2424	1.2507	HKD	7.766	+0.0	Stoxx 50	3,421	-0.3	12.1	HRC steel	625.0	+0.0
JPY	110.90	-0.7	110.75	111.73	CNY	6.882	-0.1	FTSE	7,325	-0.7	18.3	CRB	183.9	-0.2
CAD	1.3336	-0.1			SGD	1.398	-0.1	DAX	11,904	-0.5	19.2	Wheat Chic.	439.3	-0.7
NZD/AUD	0.9207	+0.6			IDR	13,329	+0.1	CAC 40	4,995	-0.7	12.7	Sugar	17.30	+0.1
NZD/EUR	0.6540	+0.4			THB	34.60	-0.4	Nikkei	19,041	-2.1	12.0	Cotton	77.79	+1.2
NZD/GBP	0.5665	+0.4			KRW	1,123	+0.3	Shanghai	3,245	-0.5	7.8	Coffee	141.7	-2.1
NZD/JPY	78.41	-0.3			TWD	30.49	+0.1	ASX 200	5,685	-1.6	10.5	WM powder	2880.0	+0.0
NZ TWI	76.75	+0.4			PHP	50.33	+0.3	NZX 50	7,061	-0.3	5.9	Australian Futures		
Interest Rates										3 year bond 97.99 0.01				
										10 year bond 97.23 0.04				
Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields						
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last		Last	Last				
USD	1.00	1.16	1.61	2.36	USD	2.394	-0.02	NZGB 3 04/15/20	2.320	-0.01	1 year	2.065	+0.00	
AUD	1.50	1.80	1.94	2.98	AUD	2.76	-0.05	NZGB 6 05/15/21	2.490	-0.01	2 year	2.290	+0.00	
NZD	1.75	1.98	2.29	3.46	NZD	3.21	-0.02	NZGB 5 1/2 04/15/23	2.775	-0.02	5 year	2.915	-0.02	
EUR	0.00	0.06	-0.10	0.83	GER	0.41	-0.05	NZGB 2 3/4 04/15/25	3.100	-0.02	7 year	3.193	-0.03	
GBP	0.25	0.34	0.64	1.23	GBP	1.18	-0.08	NZGB 4 1/2 04/15/27	3.210	-0.02	10 year	3.455	-0.04	
JPY	-0.03	0.00	0.05	0.26	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.575	-0.01	15 year	3.763	-0.04	
CAD	0.50	1.17	1.13	1.93	CAD	1.68	-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 06:46

Source: Bloomberg

Contact Details

New Zealand	Kymerly Martin	Senior Market Strategist	+ (64 4) 924 0419
	Jason Wong	Currency Strategist	+ (64 4) 924 7652
Australia	Ray Attrill	Global Co-Head of FX Strategy	+ (61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+ (61 2) 9237 7109
London	Nick Parsons	Global Co-Head of FX Strategy	+ (44 0) 20 7710 2993
	Gavin Friend	Markets Strategist	+ (44 0) 20 7710 0898

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