

23 March 2018



Events Round-Up

NZ: RBNZ OCR (%), Mar: 1.75 vs. 1.75 exp.
AU: Employment change ('000), Feb: 17.5 vs. 20.0 exp.
AU: Unemployment rate (%), Feb: 5.6 vs. 5.5 exp.
GE: Markit manufacturing PMI, Mar: 58.4 vs. 59.8 exp.
GE: Markit services PMI, Mar: 54.2 vs. 55.0 exp.
EC: Markit manufacturing PMI, Mar: 56.6 vs. 58.1 exp.
EC: Markit services PMI, Mar: 55.0 vs. 56.0 exp.
GE: IFO expectations, Mar: 104.4 vs. 104.4 exp.
UK: Retail sales ex auto fuel (m/m%): Feb, 0.6 vs. 0.4 exp.
UK: BoE bank rate (%), Mar: 0.5 vs. 0.5 exp.
US: Markit manufacturing PMI, Mar: 55.7 vs. 55.5 exp.
US: Markit services PMI, Mar: 54.1 vs. 56.0 exp.

Good Morning

In overnight trading, the USD has pared back some of its losses seen since yesterday before and after the FOMC's statement. UST yields have fallen further as US equity markets show another chunky fall.

We saw yesterday's FOMC statement as confirming a steady policy tightening track in the US amidst a decent growth backdrop and rising inflationary pressure. Some argue that the market reaction implies that the statement was more dovish than expected, but we'd argue that it was about as hawkish as expected and the market reaction of a weaker USD and slightly lower rates was a case of buy the rumour, sell the fact. The USD has shown a mild but broadly based recovery overnight.

Early this morning news has come out that the US will impose tariffs on about \$60b of Chinese imports, with a list of products that will face the higher tariffs due in 15 days. The announcement was well anticipated. Trump will also direct Treasury Secretary Mnuchin to propose new investment restrictions on Chinese companies within 60 days to safeguard technologies the US views as strategic. More importantly, we await the response of China for any possible retaliatory action.

The Bank of England left its policy rate unchanged at 0.5% in a 7-2 vote, with the two dissenters arguing for an immediate rate hike. The MPC maintained its tightening bias and all members agreed that any future increases in

the policy rate would likely be at a gradual pace and limited extent. The minutes of the meeting acknowledged that the market-implied probability of a 25bp hike in May had increased to 90% and no push-back to that view was provided. The market seemed to pay more attention to the "gradual and limited" comment than the likelihood a May rate hike, seeing GBP slightly softer against both the USD and EUR post the announcement, excluding the algo-driven spike up in GBP immediately after the release.

In overnight economic data releases, UK retail sales were slightly stronger than expected, while euro area PMIs were weaker than expected and the suite of series shows a clear downward shift in growth momentum from a very high level. This was backed by Germany's IFO business indicators.

Yesterday, the RBNZ's OCR came and went without any surprises, with the bank's guidance of unchanged policy for "a considerable time" remaining. The only interesting aspect of the statement was Acting Governor Spencer's omission of any comment on the NZD. In a later interview he noted that this was a deliberate decision saying that "in my view, we should only comment on the currency if it's really pretty clear that it's out of alignment and you're wanting to have some impact, some sort of jaw-boning effect". We agree with that sentiment, and this is a welcome change in communication strategy from the previous Governor's (mindless) obsession with the level of the NZD dollar. Spencer reaffirmed his view that the NZD was in the vicinity of fair value. The market keenly awaits Governor-in-waiting Orr taking the reins and what his assessment of the policy outlook is, but for that we'll have to wait until the May MPS. We expect a Policy Targets Agreement to be released soon, with focus on how employment will be included in the mix and some speculation/hope that the focus on the 2% inflation mid-point – a relic of the previous Governor – will be dropped.

The NZD trades this morning at 0.7225, down a touch from the NZ close but the best performing of the majors since 7am yesterday, reflecting the move post the FOMC announcement. The AUD has been one of the worst performers, not helped by the labour market data yesterday which showed the unemployment rate ticking higher to 5.6%, reflecting increased labour supply amidst steady growth in employment. We will likely need to see the unemployment rate closer towards the RBA's 5% NAIRU to get the market pricing more from the RBA. NZD/AUD is up to 0.9360 after dipping below the 0.93 mark ahead of the Australian labour market release.

US 10-year Treasuries have traded more or less in line with S&P500 spot and futures. The 10-year rate traded as low as 2.80% when the sell-off in US equities was at its worst, and yields have climbed back up to 2.84% as US equities have recovered off their lows. This keeps the 2.80-2.95% range seen over the past six weeks intact.

The NZ rates market didn't react to the no-surprise RBNZ OCR Review. Any tightening remains a distant prospect with the market not pricing in a full rate hike until about the middle of next year. The 2-year swap rate closed the day down 1bp to 2.24% while the 10-year rate was dragged down by global forces, seeing it 4bps lower at 3.16%.

For local investors the day ahead looks uneventful, making

for a quiet end to the week. On the global economic calendar Japan and Canada CPI are the key releases, while durable goods orders data are released in the US.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	CPI ex fresh food, energy (y/y%)	Feb	0.5	0.4	12:30
US	Fed's Bostic speaks on econ. outlook				01:10
CA	CPI core-common (y/y%)	Feb	1.9	1.8	01:30
US	Durable goods orders (m/m%)	Feb	1.6	-3.6	01:30
US	Durables ex transportation (y/y%)	Feb	0.5	-0.3	01:30
US	New home sales ('000)	Feb	622	593	03:00

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	0.7225	-0.0	0.7212	0.7263	CHF	0.9511	+0.1	S&P 500	2,687	-0.9	14.4	Oil (Brent)	68.95	-0.7
AUD	0.7717	-0.6	0.7687	0.7765	SEK	8.252	+0.8	Dow	24,417	-1.0	18.2	Oil (WTI)	64.35	-1.3
EUR	1.2303	-0.3	1.2286	1.2388	NOK	7.743	+0.6	Nasdaq	7,272	-1.0	24.9	Gold	1326.9	+0.4
GBP	1.4104	-0.3	1.4076	1.4219	HKD	7.848	+0.0	Stoxx 50	3,348	-1.6	-2.1	HRC steel	825.0	+0.4
JPY	105.76	-0.3	105.26	105.96	CNY	6.335	+0.2	FTSE	6,953	-1.2	-5.1	CRB	195.3	-0.4
CAD	1.2903	+0.0			SGD	1.316	+0.2	DAX	12,100	-1.7	1.6	Wheat Chic.	471.5	+0.5
NZD/AUD	0.9362	+0.6			IDR	13,755	-0.0	CAC 40	5,167	-1.2	3.5	Sugar	12.77	+0.8
NZD/EUR	0.5873	+0.2			THB	31.28	+0.4	Nikkei	21,592	+1.0	13.1	Cotton	82.31	-0.3
NZD/GBP	0.5123	+0.2			KRW	1,072	-0.0	Shanghai	3,263	-0.5	0.5	Coffee	119.0	+0.1
NZD/JPY	76.41	-0.3			TWD	29.14	-0.2	ASX 200	5,937	-0.2	4.0	WM powder	3180.0	+0.5
NZD/CAD	0.9322	-0.1			PHP	52.32	+0.4	NZX 50	8,601	-0.1	21.8	Australian Futures		
NZ TWI	74.56	+0.2												
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	2.27	2.61	2.88	USD	2.84	-0.04	NZGB 6 05/15/21	2.06	-0.00	1 year	2.09	-0.00	
AUD	1.50	1.99	2.09	2.91	AUD	2.70	0.00	NZGB 5 1/2 04/15/23	2.34	-0.01	2 year	2.24	-0.01	
NZD	1.75	1.96	2.23	3.14	NZD	2.81	-0.03	NZGB 2 3/4 04/15/25	2.59	-0.03	5 year	2.70	-0.02	
EUR	0.00	0.06	-0.16	1.00	GER	0.53	-0.06	NZGB 4 1/2 04/15/27	2.81	-0.03	7 year	2.92	-0.03	
GBP	0.50	0.64	1.11	1.56	GBP	1.44	-0.09	NZGB 3 04/20/29	2.98	-0.02	10 year	3.15	-0.04	
JPY	-0.06	-0.05	0.05	0.24	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.18	-0.02	15 year	3.40	-0.04	
CAD	1.25	1.17	2.22	2.59	CAD	2.20	-0.06	NZGB 2 3/4 04/15/37	3.33	-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 07:00

Source: Bloomberg

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