

24 April 2017

Events Round-Up

NZ: ANZ consumer confidence, Apr: 121.7 vs. 125.2 prev.

GE: Markit manufacturing PMI, Apr P: 58.2 vs. 58.0 exp.

GE: Markit services PMI, Apr P: 54.7 vs. 55.5 exp.

EC: Markit manufacturing PMI, Apr P: 56.8 vs. 56.0 exp.

EC: Markit services PMI, Apr P: xx 56.2. 55.9 exp.

UK: Retail sales ex auto fuel (y/y%), Mar: 2.6 vs. 3.8 exp.

US: Markit manufacturing PMI, Apr P: 52.8 vs. 53.8 exp.

US: Markit services PMI, Apr P: 52.5 vs. 53.2 exp.

US: Existing home sales (mn), Mar: 5.71 vs. 5.60 exp.

Good Morning

As the new week begins, the results of the French Presidential election are streaming in. A number of exit polls give centrist Macron and far-right Le Pen the nod to make the second round run-off on 7 May. This is the market-friendly outcome that the polls pointed to but there was always the chance of a rogue result. Macron should defeat Le Pen convincingly in the second round, as the other mainstream parties rally against Le Pen and offer their support for Macron.

With the risk of an adverse French election result now cleared, EUR has jumped by 1.8% to 1.0930 in the first ten minutes of trading from the Wellington open. NZD/USD is trading slightly higher around 0.7040, taking NZD/EUR down to 0.6440. Higher risk appetite has seen the yen fall about 1.3%, taking NZD/JPY up to 77.8. Liquidity is thin and the market is jumpy. The tables contained in this report are based on Friday's close. It will take a good 24 hours before the market settles down.

On Friday, it was a fairly subdued end to the trading week as traders looked ahead to Sunday's first round French Presidential vote. Currency movements were modest, US equities were down slightly while UST rates were up slightly.

There were a number of economic data releases, but they were largely ignored, or any market reaction proved to be temporary. Sales of previously owned US homes rose more than forecast in March to the fastest pace in a decade. Euro area PMIs continued to nudge higher, with the composite reading rising to a 6-year high and evidence of a broadly based economic expansion. UK retail sales were much weaker than expected, but the negative

reaction to GBP wasn't sustained.

Oil prices fell around 2%, with the WTI measure closing back below USD50 per barrel. With the oil rig count in the US on a rising trend, traders are concerned that rising US production is more than making up for the OPEC-driven production growth freeze. NOK was the worst performing currency, falling 0.5%, followed by CAD, losing 0.2% against the USD. Other major currencies managed modest gains against the USD, but no more than 0.2%. It was a subdued trading session, with traders not willing to take on fresh positions ahead of the French vote. EUR ended the week on a slightly positive note, ending around 1.0730.

The NZD ended the week around 0.7030, well within the 0.69-0.71 trading range the currency has been stuck in over the past seven weeks. Small gains on most of the crosses were made for the session.

Trump told the Associated Press the White House will release a tax plan next week (Wednesday). He said businesses and individuals will receive a "massive tax cut," but didn't provide more details. The cuts will be "bigger I believe than any tax cut ever," he said. The market has heard all this before and barely reacted. Of note, it seems that the proposed border tax will not go ahead, which would reduce the ability to cut taxes, without an adverse impact on the projected fiscal deficit.

Fed Vice-Chair Fischer said a recent patch of weak economic data likely won't throw the Fed off track for two more interest-rate increases this year. He also played down the fall in the CPI in March, seeing it as a one-time shock which he believes has little impact on the inflation outlook.

UST rates showed a slight bias to steepen, with the 2-year rate flat at 1.18% and the 10-year rate up 1.5bps to 2.25%. The 10-year rates has now drifted up over the past few sessions, with last week's low around 2.16% now becoming an area of technical support as traders contemplate the week ahead. A number of US data releases are due this week, with the highlight being Q1 GDP figures on Friday. The current Bloomberg consensus for that release is a fairly soft 1.1% annualised. Trump's tax announcement ahead of that release and any geo-political news will be on the radar for the market.

The local rates market saw a steeper curve on Friday, with the 2-year swap rate unchanged at 2.32% and the 10-year rate up 3.5bps to 3.33%. The short end of the curve is

likely to remain tightly range-bound until the next key event, the RBNZ's MPS on 11 May. Meanwhile global forces will continue to drive the longer end of the curve. There is little on the economic calendar as the new week begins.

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Coming Up

	Period	Cons.	Prev.	NZT
GE IFO expectations	Apr	105.9	105.7	20:00
ANZAC Day Holiday				
US New home sales	Mar	584	592	02:00
US Conf. Board consumer confid.	Apr	123.0	125.6	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	0.7031	+0.2	0.6999	0.7037	CHF	0.9963	-0.2	S&P 500	2,349	-0.3	12.3	Oil (Brent)	51.96	-1.9
AUD	0.7541	+0.2	0.7516	0.7546	SEK	8.995	+0.1	Dow	20,548	-0.2	14.1	Oil (WTI)	49.62	-2.1
EUR	1.0728	+0.1	1.0682	1.0738	NOK	8.670	+0.5	Nasdaq	5,911	-0.1	20.5	Gold	1287.4	+0.4
GBP	1.2817	+0.0	1.2757	1.2835	HKD	7.775	+0.0	Stoxx 50	3,440	+0.0	9.5	HRC steel	650.0	+0.0
JPY	109.09	-0.2	108.88	109.39	CNY	6.886	+0.1	FTSE	7,115	-0.1	12.7	CRB	181.9	-0.6
CAD	1.3498	+0.2			SGD	1.397	-0.0	DAX	12,049	+0.2	16.1	Wheat Chic.	421.0	-0.2
NZD/AUD	0.9324	+0.1			IDR	13,322	-0.0	CAC 40	5,059	-0.3	10.7	Sugar	16.41	+0.5
NZD/EUR	0.6554	+0.2			THB	34.36	-0.1	Nikkei	18,621	+1.0	6.0	Cotton	78.99	-1.3
NZD/GBP	0.5486	+0.3			KRW	1,134	-0.5	Shanghai	3,173	+0.0	7.2	Coffee	132.9	-1.0
NZD/JPY	76.70	-0.1			TWD	30.34	-0.2	ASX 200	5,854	+0.6	11.8	WM powder	3250.0	+0.0
NZ TWI	76.48	+0.1			PHP	49.79	+0.0	NZX 50	7,197	+0.1	4.8	Australian Futures		
											3 year bond	98.18	0.00	
											10 year bond	97.42	-0.02	
Interest Rates								NZ Government Bonds				NZ Swap Yields		
Rates		Swap Yields		Benchmark 10 Yr Bonds				Last				Last		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.00	1.15	1.53	2.21	USD	2.25	0.02	NZGB 3 04/15/20	2.26	-0.01	1 year	2.07	-0.01	
AUD	1.50	1.75	1.84	2.83	AUD	2.54	0.04	NZGB 6 05/15/21	2.40	0.02	2 year	2.33	+0.00	
NZD	1.75	1.95	2.33	3.33	NZD	2.97	0.02	NZGB 5 1/2 04/15/23	2.68	0.02	5 year	2.86	+0.02	
EUR	0.00	0.06	-0.14	0.76	GER	0.25	0.01	NZGB 2 3/4 04/15/25	2.91	0.02	7 year	3.10	+0.03	
GBP	0.25	0.34	0.55	1.09	GBP	1.03	-0.04	NZGB 4 1/2 04/15/27	2.97	0.02	10 year	3.33	+0.04	
JPY	-0.05	0.01	0.03	0.22	JPY	0.02	-0.00	NZGB 3 1/2 04/14/33	3.25	0.02	15 year	3.61	+0.04	
CAD	0.50	1.17	1.07	1.75	CAD	1.47	-0.01							

* 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: NY close Sat morn

Source: Bloomberg

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