

24 April 2018



Events Round-Up

GE: Manufacturing PMI, Apr: 58.1 vs. 57.5 exp.

EU: Manufacturing PMI, Apr: 56 vs. 56.1 exp.

US: Existing home sales, Mar: 5.6m vs. 5.55m exp.

Good Morning

The US 10 year yield came within a whisker of 3% overnight, and remains close to the highs reached at the start of 2014. The higher US rate environment seems to be helping the USD, which strengthened across the board. The NZD fell to its lowest level since mid-January.

Despite no major economic data overnight, US bond yields have continued to move higher over the past 24 hours. The 10 year yield moved up during the Asian session yesterday to 2.98%, helped by an improvement in risk appetite after US Treasury Secretary Mnuchin spoke about being "cautiously optimistic" about reaching an agreement with China on trade tariffs. The 10 year yield then pushed up close to the psychologically important 3% mark during the London morning (it reached 2.996%) before easing back to 2.97%. The market now prices 54bps of hikes this year (slightly more than the 2 hike median contained within the Fed's projections) and 40bps in 2019.

Other global bond yields are higher in sympathy with the recent moves in US Treasuries, with the 10 year German bund and UK gilt both up 6bps. The NZ swaps curve saw a sharp steepening yesterday, with the 10 year swap rate up 5bps, and the 2 year rate up only 1bps. The NZ 10 year swap rate is now more than 20bps higher on the month, and approaching its year-to-date highs.

The move higher in US rates appears to have boosted the USD, which strengthened across the board for the third day running. The Bloomberg DXY rose around 0.75% on the day, breaking out of the trading range it has been in since mid-January. Although it is still far too early to say, were the USD to "re-couple" with interest rate differentials, the USD has room to strengthen significantly from here.

The EUR has fallen to 1.22, with slightly stronger Eurozone and German PMIs not providing much support. In addition to the move higher in US interest rates, market positioning may be contributing to the USD strength / EUR

weakness. CFTC data reported up to last Tuesday showed speculative investors added to net long EUR positions (to a new record), suggesting the market was vulnerable to a reversal (unwinding of speculative long EUR positions have probably exacerbated the moves in recent days).

The NZD has followed the broad USD move and moved down towards 0.7150, its lowest level since mid-January. Unwinds of speculative long positions in the NZD have also probably contributed to the NZD decline over the past week (the same CFTC data showed speculative investors added to NZD long positions last week, to near record levels). Meanwhile, the AUD fell to its lowest level this year, with the move lower in commodity prices overnight probably assisting the move. NZD/AUD is reasonably steady around 0.94.

In commodities, aluminium prices fell almost 10% after US Treasury Secretary Mnuchin announced that the US would ease sanctions on Russian aluminium producer Rusal if owner Oleg Deripaska (who is the subject of US government sanctions) gave up control of the company. Mnuchin also gave firms an extra five months to stop dealing with Rusal. Nickel and palladium (both of which Russia produces a large share of global output) also fell more than 5%. Oil prices initially fell more than 1% after the announcement, but have since recovered those losses to be up slightly on the day, an impressive performance in the context of the appreciation in the USD.

US equity markets are down modestly (S&P500 -0.3%, NASDAQ -0.5%), with the risk of a break higher in US Treasury yields hanging over the market. The positive sentiment generated by Mnuchin's comments over the weekend over potentially reaching agreement with China over trade relations didn't last too long. Alphabet releases its earnings after the bell today in what is the busiest week of the US earnings calendar.

In the day ahead, Australian CPI is released, with the market expecting the RBA's measures of core inflation to be a little below 2%, the bottom of the RBA's target range. Net migration is released locally.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA's Kent Gives Speech in Sydney		0		10:00
NZ	Net Migration SA	Mar		4970	10:45
AU	CPI YoY	1Q	2	1.9	13:30
AU	CPI Trimmed Mean YoY	1Q	1.8	1.8	13:30
AU	CPI Weighted Median YoY	1Q	1.9	2	13:30
GE	IFO Business Climate	Apr	102.8	114.7	20:00
US	New Home Sales	Mar	630	618	02:00
US	Conf. Board Consumer Confidence	Apr	126	127.7	02:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Other FX				Major Indices			Price			
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day	
NZD	0.7153	-0.7	0.7151	0.7209	CHF	0.9780	+0.3		S&P 500	2,661	-0.3	13.3	Oil (Brent)	74.95	+1.1
AUD	0.7607	-0.8	0.7605	0.7683	SEK	8.515	+0.8		Dow	24,369	-0.4	18.6	Oil (WTI)	68.87	+0.6
EUR	1.2212	-0.6	1.2203	1.2289	NOK	7.889	+0.8		Nasdaq	7,108	-0.5	20.3	Gold	1327.1	-0.8
GBP	1.3939	-0.4	1.3926	1.4031	HKD	7.842	-0.0		Stoxx 50	3,513	+0.5	2.1	HRC steel	867.0	-0.3
JPY	108.60	+0.9	107.77	108.73	CNY	6.317	+0.3		FTSE	7,399	+0.4	4.0	CRB	200.7	-0.6
CAD	1.2845	+0.7			SGD	1.325	+0.7		DAX	12,572	+0.3	4.3	Wheat Chic.	493.3	-0.5
NZD/AUD	0.9403	+0.0			IDR	13,975	+0.6		CAC 40	5,439	-0.1	7.5	Sugar	11.40	-4.0
NZD/EUR	0.5857	-0.2			THB	31.55	+0.7		Nikkei	22,088	-0.3	17.0	Cotton	84.12	-0.4
NZD/GBP	0.5132	-0.3			KRW	1,069	+0.2		Shanghai	3,068	-0.1	-2.0	Coffee	119.0	+1.1
NZD/JPY	77.68	+0.1			TWD	29.59	+0.6		ASX 200	5,886	+0.3	0.2	WM powder	3305.0	+0.5
NZD/CAD	0.9188	-0.1			PHP	52.36	+0.5		NZX 50	8,304	-0.2	15.0	Australian Futures		
NZ TWI	74.33	-0.3											3 year bond	97.69	-0.01
													10 year bond	97.11	-0.03
Interest Rates					NZ Government Bonds				NZ Swap Yields						
	Rates				Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last					
USD	1.75	2.36	2.75	3.00	USD	2.97	0.01	NZGB 6 05/15/21	2.14	0.01	1 year	2.15	0.00		
AUD	1.50	2.07	2.19	3.04	AUD	2.87	0.06	NZGB 5 1/2 04/15/23	2.44	0.03	2 year	2.32	0.01		
NZD	1.75	2.05	2.31	3.27	NZD	2.91	0.04	NZGB 2 3/4 04/15/25	2.71	0.04	5 year	2.79	0.03		
EUR	0.00	0.06	-0.13	1.04	GER	0.64	0.05	NZGB 4 1/2 04/15/27	2.91	0.04	7 year	3.02	0.04		
GBP	0.50	0.75	1.11	1.65	GBP	1.54	0.06	NZGB 3 04/20/29	3.10	0.05	10 year	3.27	0.05		
JPY	-0.07	-0.03	0.06	0.28	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.30	0.05	15 year	3.53	0.05		
CAD	1.25	1.17	2.27	2.72	CAD	2.35	0.01	NZGB 2 3/4 04/15/37	3.49	0.05					

* 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 06:50

Source: Bloomberg

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