

24 January 2018



Events Round-Up

NZ: Performance Services Index, Dec: 56.0 vs. 56.4 prev.

GE: ZEW Survey Expectations, Jan: 20.4 vs. 17.7 exp.

JN: BoJ 10 year Yield Target, Jan: 0% vs. 0% exp.

EC: Consumer Confidence, Jan: 1.3 vs. 0.6 exp.

Good Morning

It was more of the same again overnight, with US stocks pushing higher and the USD weaker. The US administration announced it was increasing tariffs on imported solar panels and washing machines, although this hasn't really dented sentiment. The NZD continued to rise and is now around 0.735.

Yesterday, the US administration announced it was imposing increased tariffs of up to 50% on imported washing machines and up to 30% on imported solar panels. While Trump had pledged to get tough with America's trade competitors during the election campaign, the move yesterday was the first time he had directly signed off on increased tariffs in his time in office. The key question is whether the move marks the start of a shift towards more protectionist trade policy or whether it was a symbolic gesture to appeal to a section of his constituency. The initial market reaction seems to suggest the latter as global stock markets rose regardless, although it's certainly one to watch.

US stocks moved higher again overnight, buoyed by better than expected earnings results. The S&P 500 was up around 0.2% while the NASDAQ was up 0.6%, both new record highs. The latter was boosted by Netflix, which jumped 10% after reporting faster than expected growth in subscription numbers and providing better than expected guidance for first quarter earnings. Of the 68 companies that have reported earnings so far, 82% have beaten analyst expectations.

The USD is generally weaker again, with Trump's imposition of tariffs seemingly the latest excuse to sell the dollar. The NZD was one of the best performing currencies again overnight, reaching a high of 0.7365 before falling back a little as we speak. As we noted in our Weekly yesterday, the NZD has been supported by buoyant global risk appetite, recent rises in dairy prices and probably some short-covering activity. The key focus

for the NZD this week will be Thursday's release of CPI.

The JPY was the top performing currency, rising half a percent against the USD to a three month high, despite the rise in global stock markets (the yen has historically been seen as a safe haven currency). At the BoJ's meeting yesterday, the central bank kept their inflation and growth forecasts unchanged and Kuroda said "we're in no condition yet to debate the timing and method of an exit from ultra-easy monetary policy". But the yen reacted positively as the BoJ upgraded its language around inflation expectations, which they said had been stable recently, rather than falling.

Japanese bonds were largely unmoved on the BoJ. US Treasury yields have fallen a few basis points overnight on no real news, although they remain close to recent highs. The 10 year Treasury yield is 2.63%, having reached a 3-year high of 2.66% earlier this week.

The AUD was one of the worst performing currencies overnight, falling almost half a percent, despite the USD weakening against most of the G10. The 3.5% fall in iron ore futures prices yesterday may have contributed to its poor performance, as well as a failure to break convincingly above 0.80. Consequently, the NZD/AUD has risen sharply over the past 24 hours, although at 0.92 it is still within the range it has traded the last few weeks (albeit at the top end).

The CAD and MXN also fell overnight, possibly because the market extrapolated Trump's imposition of tariffs to tougher NAFTA negotiations, which kick off again this week.

In the day ahead, we receive the UK employment report and the European PMIs, while more US companies will also be reporting earnings. Later this week the focus will turn to the ECB meeting and US GDP.

Coming Up

	Period	Cons.	Prev.	NZT
EC Markit Eurozone Manufacturing PMI	Jan P	60.3	60.6	22:00
EC Markit Eurozone Services PMI	Jan P	56.4	56.6	22:00
EC Markit Eurozone Composite PMI	Jan P	57.9	58.1	22:00
UK ILO Unemployment Rate 3Mths	Nov	4.3	4.3	22:30
UK Employment Change 3M/3M	Nov	-12	-56	22:30
US Existing Home Sales	Dec	5.7	5.81	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				
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	WMI 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													
	Rates				Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Net Day	Last	Net Day	Last	Net Day	
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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