

24 March 2017

Events Round-Up

- NZ: RBNZ official cash rate (%), Mar: 1.75 vs. 1.75
- GE: GfK consumer confidence, Apr: 9.8 vs. 10 exp.
- UK: Retail sales ex auto fuel (y/y%), Feb: 4.1 vs. 3.2 exp.
- US: Initial jobless claims, wk-Mar 18: 258 vs. 240 exp.
- US: New home sales, Feb: 592 vs. 565 exp.
- EC: Consumer confidence, Mar: -5.0 vs. -5.9 exp.

Good Morning

Markets are in a holding pattern as it awaits the outcome of Trump's health care bill which has yet to be voted on at the time of writing. One headline that has just flashed across the screen is "House health-care bill vote 'probably tomorrow'". That's a sign Trump still doesn't have the numbers. Earlier, there was a slightly more positive tone to US equities ahead of the vote, but that headline has seen that gain eroded. UST yields are pretty flat and so is the USD.

Currency movements have been modest, with GBP the outperformer following surprisingly positive retail sales data. With real wages growth heading into negatively territory as inflation takes off, the market expected a soft result but the positive surprise saw GBP rise to around 1.2530. The currency was supported by the BoE's Broadbent suggesting that he can see scenarios where the BoE raises rates.

US data were mixed but both releases likely affected by the weather, with strong new home sales put down to the warm winter conditions and worse-than-expected jobless claims put down to the storm that hit the north east during the survey week. The Fed's Williams was interviewed in the WSJ where he outlined a positive outlook for the US economy and saw three or even four hikes in total by the Fed this year.

EUR/USD has traded in a tight range just under the 1.08 mark while USD/JPY is also fairly flat around 111 after earlier falling towards the 110.60 mark.

Euro-area lenders took up a massive €233.5bn of free long-term loans from the ECB in the final TLTRO operation. The lure of free money was just too tempting and the "success" of the operation was as much a signal that banks are preparing for the potential end of extraordinary monetary stimulus. The special lending operations overall have resulted in very little extra lending growth to the real economy so on that front were a failure, but a success in the sense they might have saved the

banking system from extra stress during a period of negative interest rates.

The NZD has remained in a tight trading range for another day, with the RBNZ OCR review coming and going with little market reaction as the policy message met expectations. The Bank maintained its neutral policy stance, reiterating that "monetary policy will remain accommodative for a considerable period". The RBNZ seems unperturbed by the prospect of annual headline CPI inflation moving up through 2% over the near term, driven by higher food and import prices, as it sees inflation returning to the mid-point over the medium-term (as it always does, by definition). Recall that only six weeks ago the RBNZ didn't think the mid-point would be reached for over two years. The Bank continued to cite "numerous uncertainties" which provides plenty of wriggle room for it to change its view.

The NZD sits this morning around 0.7040, hovering in a circa 0.7025-0.7055 range for much of the past day. It has made further gains against the AUD, taking the cross to 0.9220.

The RBNZ's announcement had little impact on the rates market. The OIS curve out a year didn't budge, with the probability of a November hike remaining at 38% and the first full hike priced in by March 2018. The 2-year swap rate rose by 2bps to 2.31% making a step towards unwinding the grind lower in rates over the last couple of weeks. The flattening bias continued, with the 10-year swap rate down 1bp to 3.445%.

US Treasury rates have traded in a tight range as the market awaits the vote on Trump's health bill. The 10-year rate is flat at 2.41%.

In upcoming data, euro area PMIs and US durable goods data are released, but it is the outcome of the health bill vote that the market is likely more interested in.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Trade balance, \$m	Feb	180	-285	10:45
NZ New Zealand Plans to Sell NZD150 Mln 2037 Bonds				14:05
GE Markit manufacturing PMI	Mar P	56.5	56.8	21:30
GE Markit services PMI	Mar P	54.5	54.4	21:30
EC Markit manufacturing PMI	Mar P	55.3	55.4	22:00
EC Markit services PMI	Mar P	55.3	55.5	22:00
US Durable goods orders, m/m%	Feb P	1.3	2	01:30
US Durables ex transportation (m/m%)	Feb P	0.6	0.0	01:30
US Markit manufacturing PMI	Mar P	54.7	54.2	02:45

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	0.7034	-0.1	0.7031	0.7055	CHF	0.9926	+0.1	S&P 500	2,351	+0.1	15.4	Oil (Brent)	50.66	+0.0	
AUD	0.7634	-0.6	0.7625	0.7668	SEK	8.829	+0.3	Dow	20,716	+0.3	18.4	Oil (WTI)	47.85	-0.4	
EUR	1.0780	-0.2	1.0768	1.0805	NOK	8.492	+0.4	Nasdaq	5,830	+0.1	22.2	Gold	1246.4	-0.2	
GBP	1.2516	+0.2	1.2463	1.2531	HKD	7.767	+0.0	Stoxx 50	3,452	+0.9	13.5	HRC steel	653.0	+4.5	
JPY	111.05	-0.1	110.63	111.40	CNY	6.886	+0.1	FTSE	7,341	+0.2	18.4	CRB	183.8	-0.0	
CAD	1.3334	+0.0			SGD	1.399	+0.1	DAX	12,040	+1.1	20.1	Wheat Chic.	436.3	-0.3	
NZD/AUD	0.9214	+0.4			IDR	13,325	-0.0	CAC 40	5,033	+0.3	13.8	Sugar	17.60	+1.7	
NZD/EUR	0.6525	+0.0			THB	34.59	+0.1	Nikkei	19,085	+0.2	13.0	Cotton	77.55	+0.2	
NZD/GBP	0.5620	-0.4			KRW	1,122	-0.1	Shanghai	3,249	+0.1	9.7	Coffee	140.5	-0.8	
NZD/JPY	78.11	-0.2			TWD	30.49	+0.0	ASX 200	5,708	+0.4	12.3	WM powder	2885.0	+0.2	
NZ TWI	76.51	+0.0			PHP	50.42	+0.2	NZX 50	7,063	+0.0	6.0	Australian Futures			
													3 year bond	98	0.00
													10 year bond	97.21	-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			Last			
USD	1.00	1.16	1.61	2.39	USD	2.414	0.01	NZGB 3 04/15/20	2.350	0.03	1 year	2.073	+0.01		
AUD	1.50	1.80	1.94	3.00	AUD	2.76	0.00	NZGB 6 05/15/21	2.515	0.02	2 year	2.310	+0.02		
NZD	1.75	1.98	2.31	3.45	NZD	3.21	0.00	NZGB 5 1/2 04/15/23	2.800	0.02	5 year	2.923	+0.01		
EUR	0.00	0.06	-0.09	0.84	GER	0.43	0.02	NZGB 2 3/4 04/15/25	3.105	0.00	7 year	3.190	-0.00		
GBP	0.25	0.34	0.65	1.28	GBP	1.23	0.05	NZGB 4 1/2 04/15/27	3.210	0.00	10 year	3.445	-0.01		
JPY	-0.04	0.01	0.05	0.25	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	3.570	-0.01	15 year	3.750	-0.01		
CAD	0.50	1.17	1.13	1.93	CAD	1.68	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 06:50

Source: Bloomberg

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