

24 May 2018



Events Round-Up

GE: Markit manufacturing PMI, May: 56.8 vs. 57.9 exp.

GE: Markit services PMI, May: 52.1 vs. 53.0 exp.

EC: Markit manufacturing PMI, May: 55.5 vs. 56.1 exp.

EC: Markit services PMI, May: 53.9 vs. 54.7 exp.

UK: Core CPI (y/y%), Apr: 2.1 vs. 2.2 exp.

US: Markit manufacturing PMI, May: 56.6 vs. 56.5 exp.

US: Markit services PMI, May: 55.7 vs. 55.0 exp.

US: New home sales ('000), Apr: 662 vs. 680 exp.

EC: Consumer confidence, May: 0.2 vs. 0.5 exp.

Good Morning

Market sentiment has soured a little, seeing safe-haven currencies like JPY outperform, softer global equity markets and lower global bond rates, with UST10s dipping below 3%.

During the local trading session yesterday, Turkey was in the spotlight, with the Turkish lira coming under significant pressure after President Erdogan pledged to tighten his grip on the economy and take more responsibility for monetary policy. The lira was down over 5% at one stage and this spilled over into demand for safe-havens like JPY, while commodity currencies came under pressure. Overnight, Turkey increased its key policy rate by 300bps to 16.5% after an extraordinary meeting by the central bank and this has helped reverse that decline in the lira.

The mood of the market also hasn't been helped by US-China trade tensions. Trump has faced pressure from his fellow Republicans and supporters and looks to have backed down from earlier optimism that negotiations were going well. A number of senators across the floor made public a letter urging Trump not to soften the punishment on Chinese telco firm ZTE.

To add to the risk-off tone, economic data out of Europe was soft, raising questions about how much more puff the current global economic expansion has. Provisional euro-area PMI data for May came in lower than expected across both the manufacturing and services sectors, raising the prospect that the first-quarter speed bump for growth might have extended into the second-quarter. Italy has remained in the spotlight, with law professor Conte getting the nod from Italian President Mattarella to

form a government. Conte is widely seen to be a complete nobody, offering little political experience and who might end up just being a puppet for the populist coalition partners.

Against that largely negative backdrop, JPY has been the strongest of the majors, seeing USD/JPY down to 109.56 at its low point after hitting 111 just a day earlier. The USD was also performing well, before seeing some retreat after the FOMC meeting minutes this morning. In contrast to the softer euro-area PMI data, the US versions met or exceeded expectations. EUR fell to a fresh YTD low of 1.1676 and has since nudged its way back to 1.17.

The NZD started yesterday on a positive note after Fonterra lifted its forecast milk payout for the current season by 3% to \$6.75 per kg/milk solids and projected an opening forecast for next season of \$7.00, at the very top end of expectations. It was a vote of confidence in the outlook for the dairy sector. Soon after we saw an algo-driven 25pip fall in the NZD after the RBNZ published a Bulletin article on unconventional monetary policy. It was all very hypothetical about what the RBNZ could do if another economic crisis hit and it didn't take much for the NZD to quickly bounce back, before the focus on Turkey saw the NZD fall through the rest of the Asian session. A low of 0.6885 overnight was reached and the NZD has recovered as the USD has weakened post FOMC minutes released at 6am.

Bloomberg describes the minutes as short-term hawkish but medium-term dovish. FOMC officials said that the economic outlook warranted another interest-rate hike "soon", supporting the case for June rate hike (already priced in) and the minutes noted that a modest inflation overshoot "could be helpful" in anchoring inflation expectations around 2%. The NZD is currently around 0.6920, only down slightly from this time yesterday and up slightly from the local close. NZD/JPY almost got to 77 when risk appetite was at its worst, but has since fallen back to 76.1. NZD/EUR is back up through 0.59. The AUD has largely followed the path of the NZD, seeing NZD/AUD steady, hovering around the 0.9150 mark for a second day.

UK CPI data came in a tick below expectations, retreating faster towards the BoE's target, with headline inflation down to its lowest level in more than a year of 2.4%. Brexit woes also continue with reports the government is yet to decide on what post-EU customs option it wants. Both Boris Johnston and Jacob Rees-Mogg are pressuring to press ahead with leaving the customs union and for PM

May to show more “backbone” in negotiations. GBP fell steadily through the session, finding some support just above the 1.33 mark and now closer to 1.3350.

In the bond market, Italian rates have moved higher again, seeing safe-haven flows back into Germany and the US, alongside the broader risk-off market tone. The US yield curve has shown a flattening bias, with the 10-year Treasury rate falling down to around 3.00%.

As usual, there’s little to say about the NZ rates market, with the short end of the curve underpinned by steady monetary policy and the long end at the whim of global forces. With US 10-year rates down 5bps since the NZ close, the pressure will remain to the downside for rates after the modest fall in yields across the curve yesterday.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade balance (\$m)	Apr	198	-86	10:45
NZ	NZ plans to sell \$200m 2025 bonds				14:05
GE	GfK Consumer confidence	Jun	10.8	10.8	18:00
UK	Retail sales ex auto fuel (m/m%)	Apr	0.5	-0.5	20:30
US	Existing home sales (m)	Apr	5.55	5.60	02:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.6920	-0.2	0.6885	0.6921	S&P 500	2,724	-0.0	13.6	Oil (Brent)	79.70	+0.2
AUD	0.7563	-0.2	0.7523	0.7566	Dow	24,851	+0.1	18.7	Oil (WTI)	71.73	-0.6
EUR	1.1700	-0.7	1.1676	1.1768	Nasdaq	7,408	+0.4	20.7	Gold	1294.1	+0.2
GBP	1.3350	-0.6	1.3306	1.3418	Stoxx 50	3,542	-1.3	-1.5	HRC steel	878.0	-0.5
JPY	110.13	-0.7	109.56	110.53	FTSE	7,788	-1.1	4.0	CRB	206.4	+0.1
CAD	1.2837	+0.1			DAX	12,977	-1.5	2.5	Wheat Chic.	547.8	+1.7
NZD/AUD	0.9150	-0.0			CAC 40	5,566	-1.5	4.1	Sugar	12.35	+1.6
NZD/EUR	0.5915	+0.4			Nikkei	22,690	-1.2	14.9	Cotton	86.96	-0.5
NZD/GBP	0.5184	+0.4			Shanghai	3,169	-1.4	3.4	Coffee	119.4	-1.2
NZD/JPY	76.21	-0.9			ASX 200	6,033	-0.2	4.6	WM powder	3215.0	+0.5
NZD/CAD	0.8883	-0.1			NZX 50	8,553	-0.7	15.2	Australian Futures		
NZ TWI	72.89	-0.1							3 year bond	97.785	0.02
									10 year bond	97.18	0.04

Interest Rates												
	Rates				Swap Yields				Benchmark 10 Yr Bonds			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last	Net Day		
USD	1.75	2.33	2.76	3.04	USD	3.00	-0.06	NZGB 6 05/15/21	2.00	-0.00		
AUD	1.50	1.95	2.09	2.97	AUD	2.84	-0.03	NZGB 5 1/2 04/15/23	2.32	-0.01		
NZD	1.75	1.98	2.20	3.15	NZD	2.81	-0.02	NZGB 2 3/4 04/15/25	2.61	-0.02		
EUR	0.00	0.06	-0.14	1.00	GER	0.51	-0.05	NZGB 4 1/2 04/15/27	2.81	-0.02		
GBP	0.50	0.62	1.01	1.62	GBP	1.44	-0.08	NZGB 3 04/20/29	3.00	-0.02		
JPY	-0.07	-0.03	0.05	0.27	JPY	0.05	-0.01	NZGB 3 1/2 04/14/33	3.18	-0.03		
CAD	1.25	1.17	2.35	2.79	CAD	2.44	-0.05	NZGB 2 3/4 04/15/37	3.34	-0.03		

* 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 07:03

Source: Bloomberg

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