

25 January 2018



## Events Round-Up

- EC: Manufacturing PMI, Jan: 59.6 vs. 60.3 exp.
- EC: Services PMI, Jan: 57.6 vs. 56.4 exp.
- UK: Unemployment rate, Nov: 4.3% vs. 4.3% exp.
- UK: Employment Chg (3m/3m%), Nov: 102k vs. -12k exp.
- UK: Average Weekly Earnings ex Bonuses (y/y%), Nov: 2.4% vs. 2.3% exp.
- US: Existing Home Sales, Dec: 5.57m vs. 5.7m exp.

## Good Morning

The USD is weaker across the board overnight after US Treasury Secretary Mnuchin said a weak dollar was good for US trade and they weren't concerned about short-term movements. The NZD is above 0.74 as we write. The GBP has also been boosted a stronger than expected employment report and more encouraging comments on Brexit. The S&P500 is broadly unchanged, while 10 year Treasury yields have risen back to recent highs.

Speaking in Davos, Mnuchin said "*obviously a weaker dollar is good for us as it relates to trade and opportunities*" while noting that in the longer-term the strength in the dollar reflects the strength in the US economy. While Mnuchin was in many ways stating the obvious, his rhetoric marks a shift from previous Treasury Secretaries who, since 1995, have always back a 'strong dollar' policy. Coming at a time when the dollar was already struggling for support, the comments sparked further weakness.

The USD was weaker against all the major currencies overnight, with the Bloomberg Dollar Index falling almost a percent to a fresh three year low. The EUR reached 1.24, before drifting back a little ahead of the ECB meeting tonight. The dollar weakness puts many other developed market central banks, such as ECB and BoJ, in a difficult position as it is adding disinflationary pressure at a time when domestic inflation is still subdued. The market will be paying close attention to any comments from ECB President Draghi tonight on the EUR.

US stocks were mixed, with the S&P 500 and Dow Jones broadly unchanged but the NASDAQ falling. US stocks had risen earlier in the day on the back of better than expected earnings results and the USD weakness, but have fallen back over the last few hours, probably in response to US Commerce Secretary Wilbur Ross's

comments that further trade tariffs were coming. As we mentioned yesterday, the tariffs being discussed so far are narrowly focused (and Presidents Obama and Bush targeted steel imports early in their terms, so it's hardly unprecedented) but it's certainly one to watch, as an escalation in trade conflict would represent a big downside risk to global growth. US bond yields have risen back near to their highs from earlier this week, with the 10 year Treasury yield up 3bps to 2.65%.

Amid broad USD weakness, the NZD has risen above 0.74. NZD/AUD is largely unchanged though, just a little below 0.92. We receive NZ CPI this morning, with our economists looking for a 0.4% rise on the quarter, in line with consensus.

The GBP was the top performing currency overnight after a stronger than expected employment report and more encouraging comments from politicians around Brexit. The GBP is around 1.42, more than 1.5% higher than this time yesterday. While the UK unemployment rate was unchanged, employment growth was much stronger than expected and wage growth ticked up. The BoE is now almost 50% priced for a May hike. Meanwhile, Brexit Secretary David Davis said the UK would respect the ECJ during a transitional period and wanted to keep regulatory alignment with the EU after Brexit to ensure maximum access to the Single Market. And Italian Prime Minister Gentiloni noted that any deal between the UK and EU should include financial services. With the mood music around a soft Brexit getting more encouraging and a transitional deal likely to be agreed over the coming few months, we think the GBP has further room to rise and we think NZD/GBP will go lower this year.

As mentioned, the main events today will be NZ CPI and the ECB meeting. With Davos in full swing we will undoubtedly get more comments from politicians over the next 24 hours, with the market likely to focus on those related to trade. Trump is scheduled to make an address in Davos later this week.

## Coming Up

	Period	Cons.	Prev.	NZT
NZ CPI QoQ	4Q	0.4	0.5	10:45
NZ CPI YoY	4Q	1.9	1.9	10:45
GE IFO Business Climate	Jan	117	117.2	22:00
EC ECB Deposit Facility Rate	Jan	-0.4	-0.4	01:45
US Advance Goods Trade Balance	Dec	-68.9	-69.7	02:30
US New Home Sales	Dec	675	733	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	0.7407	+0.7	0.7360	0.7428	CHF	0.9460	-1.2	24.2	S&P 500	2,833	-0.2	24.2	Oil (Brent)	69.88	-0.1
AUD	0.8058	+0.7	0.8000	0.8083	SEK	7.947	-0.8	31.6	Dow	26,201	-0.0	31.6	Oil (WTI)	64.80	+0.6
EUR	1.2386	+0.7	1.2303	1.2402	NOK	7.769	-0.7	32.1	Nasdaq	7,400	-0.8	32.1	Gold	1358.5	+1.2
GBP	1.4190	+1.4	1.4020	1.4241	HKD	7.818	-0.0	11.0	Stoxx 50	3,643	-0.8	11.0	HRC steel	679.0	+0.3
JPY	109.18	-1.0	109.00	110.09	CNY	6.358	-0.7	6.9	FTSE	7,643	-1.1	6.9	CRB	198.6	+0.8
CAD	1.2365	-0.4			SGD	1.309	-0.7	15.7	DAX	13,415	-1.1	15.7	Wheat Chic.	445.5	+2.6
NZD/AUD	0.9192	+0.0			IDR	13,314	-0.1	13.8	CAC 40	5,495	-0.2	13.8	Sugar	13.16	-0.2
NZD/EUR	0.5980	+0.0			THB	31.54	-0.8	25.6	Nikkei	23,941	-0.8	25.6	Cotton	82.19	-0.1
NZD/GBP	0.5220	-0.6			KRW	1,070	-0.0	13.0	Shanghai	3,559	+0.4	13.0	Coffee	122.6	+1.4
NZD/JPY	80.87	-0.3			TWD	29.22	-0.0	6.8	ASX 200	6,055	+0.3	6.8	WMI powder	3130.0	+0.5
NZD/CAD	0.9159	+0.3			PHP	50.83	-0.6	17.4	NZX 50	8,324	+0.2	17.4	<b>Australian Futures</b>		
NZ TWI	75.75	+0.1											3 year bond	97.73	-0.02
													10 year bond	97.16	-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	Last	Last	Last	Last			
USD	1.50	1.75	2.26	2.67	USD	2.64	0.03	NZGB 3 04/15/20	2.01	-0.02	1 year	2.01	-0.00		
AUD	1.50	1.79	2.09	3.00	AUD	2.83	-0.01	NZGB 6 05/15/21	2.21	-0.03	2 year	2.24	-0.01		
NZD	1.75	1.88	2.25	3.26	NZD	2.93	-0.04	NZGB 5 1/2 04/15/23	2.48	-0.03	5 year	2.76	-0.02		
EUR	0.00	0.06	-0.13	0.98	GER	0.59	0.03	NZGB 2 3/4 04/15/25	2.74	-0.03	7 year	3.01	-0.03		
GBP	0.50	0.53	0.91	1.49	GBP	1.41	0.05	NZGB 4 1/2 04/15/27	2.93	-0.04	10 year	3.26	-0.04		
JPY	-0.04	-0.04	0.05	0.29	JPY	0.08	0.01	NZGB 3 1/2 04/14/33	3.26	-0.04	15 year	3.50	-0.04		
CAD	1.25	1.17	2.17	2.60	CAD	2.26	0.03	NZGB 2 3/4 04/15/37	3.41	-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 06:53

Source: Bloomberg

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