

26 April 2017

Events Round-Up

GE: IFO expectations, Apr: 105.2 vs. 105.9 exp.

US: New home sales ('000), Mar: 621 vs. 584 exp.

US: Conf. Board cons. confid., Apr: 120.3 vs. 122.5 exp.

Good Morning

Locals will return from the ANZAC day holiday to see markets still in a risk-on mode, buoyant from a market-friendly French Presidential election result, but that mood hasn't followed through into the commodity currencies, which have languished.

After yesterday's 1.1% rise in the S&P 500, the index has added another 0.7%, taking it a fraction below the record high set in early March. Meanwhile the Dow Jones index is back above 21,000 while the Nasdaq index is up through 6000 for the first time ever. It's back to risk-on, as markets continue to absorb the positive French Presidential election outcome, with robust economic data and some better earnings results playing a supporting role. US home sales were strong and while consumer confidence was slightly below expectations, the index level remains historically high.

The VIX index has moved significantly lower and is now close to its lowest level this year at 10.5, after trading near 15-16 ahead of the French election. This takes our risk appetite index back up close to 80%. With a move like that, one would normally expect the NZD to have surged ahead, but somewhat strangely it has moved in the opposite direction and trades this morning around 0.6950, taking it further away from our short-term fair value estimate, which has pushed up to 0.74.

It doesn't make any sense to us why the NZD has ended up one of the weakest major currencies (second weakest to the safe-haven yen) over the past couple of days, just as risk appetite has surged ahead. It doesn't make much sense why I had such a bad round of golf yesterday after my best round in a year on Saturday either. These things just happen.

Commodity currencies are out of favour. The CAD has been in the spotlight, falling to a 14-month low against the USD after President Trump imposed tariffs on Canadian lumber and products and criticised the nation's dairy policies. Oil prices are also struggling, as investors remain concerned about the strength of rebounding US oil production and reduced faith that OPEC can support prices with its production freeze. WTI prices are up slightly but still below \$50, after falling for six consecutive

days. Still the NZD has underperformed, with NZD/CAD down to 0.9435.

NZD/AUD is down to 0.9220, even as the AUD loses ground and is hovering around 0.7535. Australian Q1 CPI is the only key global economic release over the next 24 hours so that will get the market's attention. Annual headline inflation is expected to head back into the 2-3% target range, with core measures edging up to 1.8%.

EUR remains in favour with French political risk out of the way, hovering near its highs for the year around 1.0940. The ECB will look at the reduced political risk favourably, but isn't expected to change much its policy language this week, likely saving any major change until the June meeting. Some positive spill-over onto GBP is evident, as the market looks to an increased majority for the current government in the early-June snap UK election. GBP is 1.2830. With an underperforming NZD, the crosses are soft, with NZD/GBP down to 0.5415 and NZD/EUR down to 0.6350, fresh lows for the year.

The risk-on environment sees USD/JPY up through 111, while NZD/JPY is up slightly to 77.2. The USD indices remain near their lows for the year, not helped by the resurgent euro. Trump intends to lay out broad tax principles on Wednesday (US time), including cutting the federal corporate tax rate to 15% from 35%. The market is keen to see whether any tax plan is revenue-neutral or permanent. If a tax overhaul adds to the deficit after the initial 10-year window, then that would run counter to Senate budget rules for what can pass the Senate with a simple majority. In other words, Trump's tax plan would be unlikely to see the light of day in a permanent way unless it is deficit-neutral.

The risk-on sentiment is seeing bond markets struggle, with rates higher across the board. Germany's 10-year rate has risen by 14bps to 0.38% since the French election as hedges put on before the election are unwound. US Treasury rates are 4-5bps higher across the curve for the day, taking the 10-year rate up to 2.33%. Relative to the NZ close on Monday, UST10s are up about 2bps in yield, which should restrain the impact on local rates today.

One of the themes last week was Fed speakers maintaining their view that despite some softer US data, the outlook for monetary policy hadn't changed. So higher US rates are not just about the positive global risk sentiment – the market is wondering whether the recent rally in US bond prices was overdone, based on the dataflow. Fed funds futures suggest that the probability of a Fed hike in June is back to about 70%, while 36bps of

hikes are priced into the curve for the rest of the year. This got to as low as 25bps late last week.

This, of course, all feeds into the local curve. By month-end we could well find ourselves back in the middle of the familiar ranges seen so far this year.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Net migration	Mar		6000	10:45
AU CPI, q/q%	Q1	0.6	0.5	13:30
AU CPI, y/y%	Q1	2.2	1.5	13:30
AU Trimmed mean CPI, q/q%	Q1	0.5	0.4	13:30
AU Trimmed mean CPI, y/y%	Q1	1.8	1.6	13:30

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	0.6946	-1.0	0.6943	0.6990	CHF	0.9930	-0.3		S&P 500	2,391	+0.7	14.5	Oil (Brent)	52.21	+1.1
AUD	0.7536	-0.5	0.7521	0.7564	SEK	8.764	-1.1		Dow	21,002	+1.2	16.8	Oil (WTI)	49.67	+0.9
EUR	1.0937	+0.6	1.0863	1.0950	NOK	8.559	+0.1		Nasdaq	6,028	+0.8	23.1	Gold	1263.3	-1.0
GBP	1.2828	+0.3	1.2785	1.2846	HKD	7.779	+0.0		Stoxx 50	3,583	+0.2	14.9	HRC steel	650.0	+0.0
JPY	111.08	+1.2	110.04	111.19	CNY	6.885	+0.0		FTSE	7,276	+0.2	16.2	CRB	181.9	+0.5
CAD	1.3580	+0.6			SGD	1.394	+0.1		DAX	12,467	+0.1	21.1	Wheat Chic.	427.0	+1.8
NZD/AUD	0.9217	-0.6			IDR	13,284	-0.2		CAC 40	5,278	+1.0	16.1	Sugar	16.18	-0.4
NZD/EUR	0.6351	-1.6			THB	34.42	+0.2		Nikkei	19,079	+1.1	9.9	Cotton	80.71	+0.8
NZD/GBP	0.5415	-1.3			KRW	1,125	-0.4		Shanghai	3,135	+0.2	5.7	Coffee	132.4	+0.4
NZD/JPY	77.16	+0.2			TWD	30.12	-0.5		ASX 200	5,872	+0.3	12.1	W/M powder	3230.0	-0.6
NZ TWI	75.47	-1.0			PHP	49.70	-0.2		NZX 50	7,223	+0.4	5.2	Australian Futures		
											3 year bond	98.13	-0.02		
											10 year bond	97.36	-0.02		
Interest Rates							NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last	Last	Last	Last			
	Cash	3Mth	2 Yr	10 Yr	USD	Net Day									
USD	1.00	1.17	1.60	2.31	USD	2.33	0.05	NZGB 3 04/15/20	2.31	0.00	1 year	2.08	+0.00		
AUD	1.50	1.75	1.88	2.88	AUD	2.60	0.00	NZGB 6 05/15/21	2.45	0.00	2 year	2.34	+0.00		
NZD	1.75	1.97	2.34	3.39	NZD	3.02	0.00	NZGB 5 1/2 04/15/23	2.73	0.00	5 year	2.91	+0.00		
EUR	0.00	0.06	-0.12	0.83	GER	0.38	0.05	NZGB 2 3/4 04/15/25	2.96	0.00	7 year	3.15	+0.00		
GBP	0.25	0.33	0.56	1.14	GBP	1.09	0.03	NZGB 4 1/2 04/15/27	3.02	0.00	10 year	3.39	+0.00		
JPY	-0.06	0.01	0.04	0.23	JPY	0.03	0.00	NZGB 3 1/2 04/14/33	3.31	0.00	15 year	3.66	+0.00		
CAD	0.50	1.17	1.11	1.82	CAD	1.52	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 07:01

Source: Bloomberg

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