

26 April 2018



Events Round-Up

NZ: Net migration, Mar: 5,480 vs. 4,970 prev.
AU: CPI (y/y%), Q1: 1.9% vs. 2% exp.
AU: CPI - trimmed mean (y/y%), Q1: 1.9% vs. 1.8% exp.
AU: CPI – weighted median (y/y%), Q1: 2% vs. 1.9% exp.
GE: IFO business climate, Apr: 102.1 vs. 102.8 exp.
US: Conference Board consumer confidence, Apr: 128.7 vs. 126 exp.

Good Morning

The US 10 year Treasury yield finally breached 3% for the first time since the start of 2014. Higher rates have weighed on equities and probably helped the USD, which is stronger across the board once again. The NZD fell to year-to-date lows against the USD.

Having flirted with the 3% level on Monday, the 10 year Treasury has broken through over the past 24 hours and currently sits at 3.03%. There were no obvious drivers for the 7bp move higher over the past two days, with commodity prices having stabilised and inflation expectations having eased a few basis points lower. US economic data has generally beaten expectations, although it has mostly been second-tier data (new home sales, consumer confidence) and the market's focus will be on GDP and the employment cost index (i.e. wage growth) released on Friday.

Wednesday marked the first time the 10 year Treasury yield has hit 3% since January 2nd 2014, with 3.05% (the highs at that time) the next target for the market. Back then, the Fed funds rate was 0.25%, the unemployment rate was 6.7% and the Fed's core PCE measure of inflation was running around 1.5%. Fast forward to now, and the Fed funds rate is 1.75% and likely to be 2% by the end of June, the unemployment rate, at 4.1%, is the lowest since 2000, and core PCE is expected to be 2% when the data is released next week. Add to that the fact that the Fed is reducing, rather than increasing its holdings of US Treasuries, and the foundations for US rates above 3% are far stronger this time around than they were in early 2014.

The USD has continued to strengthen over the past two days, with the Bloomberg DXY moving to its highest levels since mid-January. The reasonably sharp rise in the USD

since the 17th April (BBDXY +2.5%) has coincided with the 20bp increase in the 10 year Treasury yield over that same period, suggesting interest rate differentials may have played a part in the USD resurgence. The fact that the rise in the US 10 rates over that time has been led by real yields (rather than inflation expectations) has also probably benefitted the USD. Position squaring amongst those short the USD has undoubtedly exacerbated recent moves.

Ahead of the ECB meeting tonight, the EUR has fallen below 1.22, and is approaching its lowest levels since mid-January. The ECB statement isn't expected to contain any policy changes at this meeting (analysts expect the central bank to wait until June or July to announce its plans for the end of QE), but the market will be interested in Draghi's take on the recent softening in European activity data (bad weather has probably played a part).

In sympathy with the stronger USD, the NZD has fallen to year-to-date lows over the past two days, and currently sits just above 0.7050. The NZD has fallen around 4% since April 17th, making it the worst performing currency in the G10 over that period. A modest pick-up in risk aversion (declines in equities) and some squaring up of NZD long positions have likely contributed to the underperformance in the NZD, in addition to the continued tightening in interest rate differentials (the US 2 year swap rate is now around 45bps higher than in NZ).

The NZD/AUD has also fallen to one month lows, around 0.9335. Australian CPI, released on Tuesday, showed higher than expected core inflation, which contributed to the fall in the cross. Our NAB colleagues didn't think there was much in the CPI release to change the near-term outlook for monetary policy though; they don't expect the first hike until November.

US equity markets fell on Tuesday night (S&P500 -1.3%, NASDAQ -1.7%) partly in response to the move in US 10 year Treasuries to 3%. Caterpillar also gave some cautious guidance in its earnings call after it said the first quarter was likely to be the "high water mark for the year". US equities are around flat overnight, despite generally better than expected earnings results from US corporates (including Twitter overnight). Elsewhere, President Trump announced that he was going to dispatch Treasury Secretary Mnuchin and US Trade Representative Lighthizer to China in the next few days to try to negotiate a better trade arrangement.

Oil prices have fallen back from their highs over the past two days, with Brent crude around \$73.30 a barrel. After his meeting with President Trump, French President Macron outlined his ambitions for a new nuclear deal with Iran in the hope of keeping the US on board and averting new sanctions. President Trump, who called the original deal “insane”, said Macron’s proposal had “solid foundations”. With oil inventories set to fall below their five year average in the coming months, fresh sanctions on Iran would further tighten supply in the oil market and likely boost oil prices.

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Coming Up

	Period	Cons.	Prev.	NZT
SW Riksbank Interest Rate		-0.5	-0.5	19:30
EC ECB Deposit Facility Rate		-0.4	-0.4	23:45
EC ECB President Draghi's Media Briefing After Policy Decision				00:30
US Advance Goods Trade Balance	Mar	-75	-75.9	00:30
US Durables Ex Transportation	Mar P	0.5	1	00:30
US Cap Goods Orders Nondef Ex Air	Mar P	0.6	1.4	00:30

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	0.7065	-0.8	0.7058	0.7097	CHF	0.9823	+0.4		S&P 500	2,632	-0.1	10.2	Oil (Brent)	73.87	+0.0
AUD	0.7564	-0.5	0.7552	0.7587	SEK	8.559	+0.6		Dow	24,056	+0.2	14.6	Oil (WTI)	67.93	+0.3
EUR	1.2177	-0.5	1.2168	1.2219	NOK	7.972	+0.9		Nasdaq	7,001	-0.0	16.2	Gold	1322.9	-0.8
GBP	1.3936	-0.3	1.3925	1.3971	HKD	7.847	+0.0		Stoxx 50	3,486	-0.7	-2.7	HRC steel	844.0	+0.5
JPY	109.33	+0.5	108.99	109.38	CNY	6.327	+0.3		FTSE	7,379	-0.6	1.4	CRB	200.7	+0.3
CAD	1.2852	+0.1			SGD	1.329	+0.5		DAX	12,422	-1.0	-0.4	Wheat Chic.	515.3	+2.7
NZD/AUD	0.9340	-0.3			IDR	13,921	+0.2		CAC 40	5,413	-1.2	2.6	Sugar	11.12	-2.0
NZD/EUR	0.5802	-0.3			THB	31.56	+0.4		Nikkei	22,215	-0.3	15.2	Cotton	83.94	+2.8
NZD/GBP	0.5070	-0.5			KRW	1,081	+0.4		Shanghai	3,118	-0.4	-0.7	Coffee	118.8	-1.2
NZD/JPY	77.24	-0.3			TWD	29.72	+0.3		ASX 200	5,922	+0.6	0.8	WM powder	3325.0	+1.1
NZD/CAD	0.9080	-0.6			PHP	52.32	+0.1		NZX 50	8,289	-0.2	14.8	Australian Futures		
NZ TWI	73.65	-0.4											3 year bond	97.705	0.00
													10 year bond	97.11	-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	1.75	2.36	2.76	3.06	USD	3.02	0.02	NZGB 6 05/15/21	2.11	0.00	1 year	2.13	0.00		
AUD	1.50	2.06	2.17	3.04	AUD	2.84	0.00	NZGB 5 1/2 04/15/23	2.42	0.00	2 year	2.29	0.00		
NZD	1.75	2.04	2.31	3.28	NZD	2.89	0.00	NZGB 2 3/4 04/15/25	2.69	0.00	5 year	2.77	0.00		
EUR	0.00	0.06	-0.13	1.05	GER	0.63	0.00	NZGB 4 1/2 04/15/27	2.89	0.00	7 year	3.00	0.00		
GBP	0.50	0.75	1.13	1.66	GBP	1.54	0.00	NZGB 3 04/20/29	3.08	0.00	10 year	3.25	0.00		
JPY	-0.07	-0.03	0.06	0.29	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.27	0.00	15 year	3.51	0.00		
CAD	1.25	1.17	2.27	2.75	CAD	2.37	0.02	NZGB 2 3/4 04/15/37	3.46	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 06:48

Source: Bloomberg

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