

26 February 2018



## Events Round-Up

NZ: Retail Sales Ex-Inflation (q/q%), Q4: 1.7% vs. 1.4% exp.

JN: CPI Ex-Fresh Food and Energy (y/y%), Jan: 0.4% vs. 0.3% exp.

EU: Core CPI (y/y%), Jan: 1% vs. 1% exp.

CA: Core CPI ("common" measure) (y/y%), Jan: 1.8% vs. 1.7% exp.

## Good Morning

US equities ended the week higher while US bond yields fell and the yield curve flattened. Ahead of new Fed Chair Powell's testimony this week, the Fed's semi-annual Monetary Policy Report noted that US wage growth was "moderate, and didn't signal any heightened concern about inflation risks. The NZD underperformed on Friday and sits just below 0.73.

US equity markets rose strongly on Friday, with the S&P500 up 1.6% and the NASDAQ up almost 1.8%. The negative correlation between US bond yields and equities continued, with the 10 year Treasury yield falling 6bps to 2.87%. The Fed's semi-annual Monetary Policy Report was released on Friday ahead of new Chair Powell's testimonies to House and Senate committees this week. The Report noted the US labour market "*appears to be near or a little beyond full employment*" but described wage gains as "*moderate*" and didn't signal any heightened concern about inflation.

Powell's comments this week will be important in shaping the market's expectations for the March FOMC meeting. While a rate hike is fully-priced for March, the focus will be on the Fed's 'dot plot', which shows Fed members' rate projections for the coming few years. The Fed's last projections, in December, showed a median expectation of 3 hikes for 2018, similar to current market pricing. The market will be particularly focused on whether Powell has anything to say on the possibility of more than 3 hikes this year. On Friday, San Francisco Fed President Williams said "*three to four*" rate increases was the "*right path*". The 2 year yield fell 1bp Friday, in contrast to the 6bp fall in the 10 year yield, causing the US yield curve to flatten.

The USD was a bit stronger against most currencies on Friday. The EUR ended the week a little below 1.23, down almost 2.5 cents from its intraday peak the Friday before.

We receive the advance estimate of core CPI for February on Wednesday evening while ECB President Draghi addresses the European parliament tonight.

The CAD was the best performing currency on Friday after Canadian CPI – both headline and core – surprised on the upside. The Bank of Canada's three preferred measures of core inflation are all now close to the 2% target. The market prices a 65% chance that the BoC will hike rates at its April meeting, which would make it the central bank's fourth rate rise this cycle.

The GBP was the second best performing currency on Friday, although it's hard to pinpoint exactly why. Media report that Theresa May's divided cabinet had settled on an approach of 'managed divergence' whereby the UK would keep regulatory alignment with the EU in some areas but have the scope to diverge in others. European Council President Donald Tusk though quickly rubbished the reported UK stance as "pure illusion". More detail on the government's planned approach should be revealed on Friday when May gives a long awaited speech on Brexit. Ahead of that, Labour leader Jeremy Corbyn will set out his party's planned approach to Brexit tonight, which will indicate their intention to remain within the customs union (by way of a new treaty). Separately, new BoE MPC member Ramsden wrote in the Sunday Times that "*relative to where I was, I see the case for rates rising somewhat sooner rather than somewhat later.*"

The NZD was one of the worst performing currencies on Friday. The NZD reached a high of around 0.7345 after the stronger than expected retail sales released on Friday morning, but it fell to as low as 0.7271 during New York trading, before closing a little below 0.73. The NZDAUD retreated further from its 6 month highs reached on Thursday and finished the week a little above 0.93. We expect NZD/AUD to be largely range-bound this year.

This week, we receive the trade balance on Tuesday and migration data on Wednesday. The highlight is likely to be the ANZ Business Survey on Friday. Across the Tasman, the key release is the ABS Capital Expenditure data on Thursday.

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## Coming Up

	Period	Cons.	Prev.	NZT
US	Fed's Bullard Speaks on U.S. Economy and Monetary Policy			02:00
US	New Home Sales	Jan	646.5	625 04:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**		
Indicative overnight ranges (*)				Other FX			Major Indices				Price		
	Last	% Day	Low	High		Last	% Day				Last	Net Day	
NZD	0.7296	-0.5	0.7271	0.7346	CHF	0.9361	+0.3				Oil (Brent)	67.31	+1.4
AUD	0.7839	-0.0	0.7804	0.7847	SEK	8.173	+0.7				Oil (WTI)	63.55	+1.2
EUR	1.2295	-0.3	1.2280	1.2337	NOK	7.852	-0.0				Gold	1330.3	-0.2
GBP	1.3971	+0.1	1.3905	1.4005	HKD	7.823	-0.0				HRC steel	745.0	+0.0
JPY	106.89	+0.1	106.51	107.13	CNY	6.337	-0.2				CRB	196.0	+0.4
CAD	1.2633	-0.6			SGD	1.320	+0.0				Wheat Chic.	479.0	+0.0
NZD/AUD	0.9307	-0.5			IDR	13,668	-0.1				Sugar	13.46	-0.9
NZD/EUR	0.5934	-0.4			THB	31.40	-0.2				Cotton	81.34	+2.4
NZD/GBP	0.5222	-0.7			KRW	1,079	-0.5				Coffee	121.0	+0.1
NZD/JPY	77.99	-0.4			TWD	29.27	+0.0				WM powder	3235.0	+0.9
NZD/CAD	0.9217	-1.1			PHP	51.84	-0.6				<b>Australian Futures</b>		
NZ TWI	75.09	-0.6									3 year bond	97.92	0.03
											10 year bond	97.21	0.04
<b>Interest Rates</b>													
	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	1.50	1.96	2.49	2.88	USD	2.87	-0.05	NZGB 3 04/15/20	1.88	0.00	1 year	2.02	0.00
AUD	1.50	1.78	2.01	2.96	AUD	2.85	-0.03	NZGB 6 05/15/21	2.07	-0.00	2 year	2.18	-0.00
NZD	1.75	1.92	2.17	3.24	NZD	2.97	-0.01	NZGB 5 1/2 04/15/23	2.42	-0.01	5 year	2.72	-0.01
EUR	0.00	0.06	-0.12	1.09	GER	0.65	-0.05	NZGB 2 3/4 04/15/25	2.75	-0.01	7 year	2.99	-0.02
GBP	0.50	0.57	1.05	1.61	GBP	1.52	-0.03	NZGB 4 1/2 04/15/27	2.97	-0.01	10 year	3.26	-0.02
JPY	-0.05	-0.07	0.05	0.27	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.32	-0.02	15 year	3.51	-0.02
CAD	1.25	1.17	2.13	2.60	CAD	2.25	-0.05	NZGB 2 3/4 04/15/37	3.47	-0.02			

\* 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 NY close

Source: Bloomberg

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