

26 January 2018



Events Round-Up

- NZ: CPI (q/q%), 4Q: 0.1% vs. 0.4% exp.
- NZ: CPI (y/y%), 4Q: 1.6% vs. 1.9% exp.
- GE: IFO Business Climate, Jan: 117.6 vs. 117 exp.
- EC: ECB Deposit Rate, Jan: -0.4% vs. -0.4% exp.
- US: New Home Sales, Dec: 625k vs. 675k exp.

Good Morning

The dollar is weaker again overnight, although that's as much a reflection of EUR strength, after ECB President Draghi didn't push back against the recent rise in the euro. In Davos, US Treasury Secretary Mnuchin said there were benefits and costs to the USD's current value, which didn't do much to change the market's perception that the US administration wants a weaker dollar. US stocks and bond yields were largely unchanged. The NZD has recovered a bit of ground against the USD since the weaker-than-expected CPI release yesterday.

The main event overnight was the ECB meeting. As expected, the ECB's didn't change their guidance around their QE programme, with most analysts expecting this to come at their next meeting in March. In the press conference, President Draghi expressed optimism in the European recovery which had "*strengthened further our confidence that inflation will converge to close to but below 2%*". Ahead of the meeting, there had been speculation that President Draghi might express concern about the recent rise in the euro and the impact that might have on their inflation projections. But while noting that the exchange rate was a risk, he went on to say part of the reason for the strengthening in the euro was the improvement in the European economy (the IFO business survey that latest European economic indicator to exceed expectations overnight). In a swipe at Mnuchin, he added that "*someone else's communication*" had also contributed to its rise. As Draghi didn't attempt to talk down the currency, the EUR rose above 1.25, a new 3 year high, after his comments.

Draghi did say that there was a very low likelihood that the ECB would raise rates this year, although that didn't stop European bond yields rising after his press conference. The 10 year bund yield initially rose 7bps, before falling back a few bps to 0.61%. The market is looking ahead to 2019 as a likely time when the ECB will move away from its negative deposit rate. The 10 year Treasury yield

spiked higher initially after the ECB meeting, but has since moved back to 2.63%, similar to this time yesterday.

The USD is again broadly weaker against other G10 currencies since this time yesterday. Overnight, Mnuchin attempted to clarify his comments yesterday that a weak USD was good for US trade. He said "*there are benefits of where the dollar is and there are costs of where the dollar is*" but the market's perception remains that the US administration would like a weaker dollar.

Commodities have continued their recent strength the past 24 hours, with USD weakness one of the key drivers (another one being strengthening global demand and manufacturing activity). Crude oil hit a new 3 year high while industrial metals rose (nickel hitting a 2½ year high).

US stocks are up modestly, with more US companies reporting better than expected earnings (including Caterpillar and 3M last night). 77% of companies so far this earnings season have beaten analysts' expectations. Stock markets outside the US have struggled overnight though, with the Nikkei down more than a percent (albeit from 25 year highs) and the Eurostoxx index down too (the strengthening yen and euro probably to blame).

The NZD is the weakest performing currency the past 24 hours after yesterday's big downside surprise in NZ CPI. CPI increased 0.1% in the 4th quarter, well below expectations of 0.4%. We have now pushed our expecting timing of the first RBNZ hike to February 2019 from August. The NZD fell more than a cent against the USD immediately after the release, but it has recovered some ground since then amid broader USD weakness. It's now around 0.7375, still higher than it was 2 days ago. NZD/AUD has consolidated just above 0.91 and remains within the 0.91 – 0.92 range of past few weeks.

Today the highlights will be US GDP and Trump's highly anticipated speech in Davos. UK GDP is also released as well and BoE Governor Mark Carney will also speak at Davos. The BoJ releases the minutes to their last meeting.

Coming Up

		Period	Cons.	Prev.	NZT
JN	Natl CPI Ex Fresh Food, Energy Yo'	Dec	0.4	0.3	12:30
JN	BOJ Minutes of Policy Meeting	0			12:50
UK	GDP QoQ	4Q A	0.4	0.4	22:30
CA	CPI YoY	Dec	1.9	2.1	02:30
US	GDP Annualized QoQ	4Q A	3	3.2	02:30
US	Durable Goods Orders	Dec P	0.8	1.3	02:30
UK	BOE Governor Mark Carney speaks on panel at Davos				03:00

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	0.7372	+0.5	0.7346	0.7390	CHF	0.9358	-1.0		S&P 500	2,844	+0.2	23.7	Oil (Brent)	70.89	+0.5
AUD	0.8086	+0.3	0.8068	0.8119	SEK	7.862	-0.9		Dow	26,413	+0.6	31.6	Oil (WTI)	65.93	+0.6
EUR	1.2489	+0.7	1.2389	1.2537	NOK	7.672	-1.0		Nasdaq	7,432	+0.2	31.4	Gold	1365.7	+0.3
GBP	1.4252	+0.1	1.4233	1.4345	HKD	7.817	-0.0		Stoxx 50	3,630	-0.4	9.1	HRC steel	679.0	+0.3
JPY	108.69	-0.5	108.59	109.27	CNY	6.326	-0.5		FTSE	7,616	-0.4	6.3	CRB	200.2	+0.4
CAD	1.2321	-0.2			SGD	1.304	-0.3		DAX	13,298	-0.9	12.6	Wheat Chic.	445.8	+0.4
NZD/AUD	0.9117	+0.2			IDR	13,289	-0.2		CAC 40	5,481	-0.5	12.4	Sugar	13.16	+0.2
NZD/EUR	0.5903	-0.2			THB	31.34	-0.6		Nikkei	23,669	-1.1	22.0	Cotton	81.89	-0.4
NZD/GBP	0.5173	+0.4			KRW	1,059	-1.1		Shanghai	3,548	-0.3	12.3	Coffee	123.4	+1.0
NZD/JPY	80.13	-0.0			TWD	29.07	-0.5		ASX 200	6,050	-0.1	6.7	WM powder	3145.0	+1.0
NZD/CAD	0.9083	+0.3			PHP	50.90	+0.1		NZX 50	8,370	+0.5	17.7	Australian Futures		
NZ TWI	75.06	+0.1											3 year bond	97.74	0.02
													10 year bond	97.15	0.01
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	1.50	1.75	2.28	2.67	USD	2.64	-0.01	NZGB 3 04/15/20	1.96	-0.05	1 year	1.97	-0.03		
AUD	1.50	1.79	2.08	2.99	AUD	2.85	0.02	NZGB 6 05/15/21	2.16	-0.05	2 year	2.18	-0.05		
NZD	1.75	1.88	2.18	3.24	NZD	2.91	-0.02	NZGB 5 1/2 04/15/23	2.44	-0.04	5 year	2.71	-0.04		
EUR	0.00	0.06	-0.13	1.00	GER	0.61	0.02	NZGB 2 3/4 04/15/25	2.71	-0.03	7 year	2.97	-0.04		
GBP	0.50	0.53	0.90	1.49	GBP	1.41	0.01	NZGB 4 1/2 04/15/27	2.91	-0.02	10 year	3.23	-0.03		
JPY	-0.04	-0.04	0.06	0.29	JPY	0.09	0.00	NZGB 3 1/2 04/14/33	3.25	-0.01	15 year	3.48	-0.02		
CAD	1.25	1.17	2.18	2.60	CAD	2.25	-0.01	NZGB 2 3/4 04/15/37	3.40	-0.01					

* 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 06:57

Source: Bloomberg

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