

27 April 2017

## Events Round-Up

NZ: Net migration, Mar: 6100 vs. 6000 prev.

AU: CPI (y/y%), Q1: 2.1 vs. 2.2 exp.

AU: Trimmed mean CPI (y/y%), Q1: 1.9 vs. 1.8 exp.

AU: Weighted median CPI (y/y%)m Q1: 1.7 vs. 1.8 exp.

## Good Morning

US politics has dominated the overnight trading session, with a focus on Trump's "massive" tax cuts. This has seen broad USD strength, while the NZD and AUD continue to underperform.

With little on the global economic calendar the focus turned to the anticipated announcement from the White House on Trump's tax package. This was released just before 6am this morning. Earlier in the day, Treasury Secretary Mnuchin confirmed that the proposal included a corporate tax rate reduction to 15%, there was no support for a border adjustment tax and, importantly, lawmakers broadly agree on the need for a tax overhaul. This helped drive the USD higher, but since the official announcement, the USD has come off its highs.

The tax reform package includes reducing the top individual tax rate from 39.6% to 35%, reducing the number of different tax brackets, and applying a 15% tax rate to corporates, businesses and partnerships. After a one-time tax on \$2.6 trillion of earnings that US corporates have parked offshore, the tax system would change to a territorial based system, meaning no extra tax on foreign earnings. A lack of detail means that it is unclear if the tax cut will pay for itself or not, but it is clear that the government will be relying on a boost to economic growth to help fund the tax cuts. There remains considerable doubt about whether the proposal in its current form would pass.

The other political news was that Politico reported the Trump administration is considering an executive order to end NAFTA, causing a negative reaction to the Mexican peso and CAD.

The NZD showed a steady fall in the lead-up to the official tax reform announcement, reaching a low of 0.6873, close to the strong level of technical support that has been in play since December. The NZD recovered to 0.69 in the immediate aftermath of the White House announcement, but has slipped again towards 0.6880.

NZD/AUD has been in a tight range, meaning that the AUD has followed a similar path and is down to 0.7470. Adding

to AUD softness was a CPI outturn that largely met market expectations. With the CPI not surprising to the upside as NZ's release did, the inclination was to sell the AUD. NZD/AUD is 0.9215, finding some support after a dip below 0.92 last night.

The NZD is down on all the other crosses continuing its recent theme of underperforming, not necessarily in line with the fundamentals. GBP has even slightly outperformed the stronger USD, taking NZD/GBP down to 0.5360. NZD/EUR is down to 0.6320. Yesterday, in conjunction with colleagues at NAB, EUR and GBP forecasts were revised higher, which sees year-end targets for NZD/EUR and NZD/GBP revised down to 0.59 and 0.52 respectively. Stronger economic data and a positive French Presidential election outcome will likely pave the way for the ECB to signal some normalisation in monetary policy, although not as soon as tonight's ECB meeting.

The NZD has even underperformed the yen despite further gains in risk appetite. NZD/JPY is down 0.7% to 76.7.

US Treasury 10-year yields have traded in a tight range, although have slipped to the bottom of the 2.31-2.35% band, following the tax reform announcement, indicating a lack of confidence that it will get passed in its current form and/or stimulate the economy. The 2-year rate is unmoved at 1.27%.

The local yield curve steepened yesterday, with higher US rates since the pre-ANZAC day close putting upward pressure on the long end of the curve. NZ's 10-year bond rate rose by 6bps to 3.08%, while the 10-year swap rate rose by 1.5bps to 3.40%. Some offshore receiving interest saw downward pressure at the short end of the curve, with the 2-year swap rate down 2bps to 2.32%. The short end of the curve is likely to remain tightly range bound until the next RBNZ MPS on 11 May.

It's a fairly action packed calendar ahead. Before the NZ close we should see the BoJ leave policy settings unchanged, with inflation remaining well below target and little else it could do to ease policy further. The ECB's policy announcement tonight will be a highlight, but the Governing Council is expected to keep guidance unchanged until June. German inflation is expected to rebound, while US sees durable goods and trade data.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Import price index (q/q%)	Q1	-0.5	0.2	13:30
AU Export price index (q/q%)	Q1	8.0	12.4	13:30
NZ New Zealand plans to sell \$150m 2037 bonds				14:05
JN BOJ policy balance rate	Apr	-0.1	-0.1	
JN BOJ 10-Yr yield target	Apr	0.0	0.0	
GE GfK consumer confidence	May	9.9	9.8	18:00
EC economic confidence	Apr	108.2	107.9	21:00
EC ECB deposit facility rate	Apr	-0.4	-0.4	23:45
EC ECB asset purchase target, €bn	Apr	60	80	23:45
GE CPI EU harmonised (y/y%)	Apr P	1.9	1.5	00:00
US Advance goods trade bal \$bn	Mar	-65.2	-64.8	00:30
US Durable goods orders, m/m%	Mar P	1.3	1.8	00:30
US Dur goods. ex transport, m/m%	Mar P	0.4	0.5	00:30
US Pending home sales, m/m%	Mar	-1.0	5.5	02:00

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	0.6884	-1.0	0.6872	0.6928	CHF	0.9943	+0.1	S&P 500	2,395	+0.3	14.5	Oil (Brent)	51.63	-0.9
AUD	0.7467	-0.9	0.7455	0.7525	SEK	8.771	-0.1	Dow	21,029	+0.2	16.9	Oil (WTI)	49.41	-0.3
EUR	1.0894	-0.3	1.0856	1.0951	NOK	8.593	+0.4	Nasdaq	6,036	+0.2	23.5	Gold	1262.1	-0.3
GBP	1.2836	-0.0	1.2805	1.2863	HKD	7.780	+0.0	Stoxx 50	3,579	-0.1	14.7	HRC steel	638.0	-0.3
JPY	111.42	+0.3	111.12	111.78	CNY	6.893	+0.1	FTSE	7,289	+0.2	16.0	CRB	181.7	-0.1
CAD	1.3613	+0.3			SGD	1.397	+0.2	DAX	12,473	+0.0	21.6	Wheat Chic.	426.5	-0.1
NZD/AUD	0.9219	-0.1			IDR	13,284	+0.0	CAC 40	5,288	+0.6	16.6	Sugar	15.38	-4.9
NZD/EUR	0.6319	-0.7			THB	34.49	+0.2	Nikkei	19,289	+1.1	11.6	Cotton	80.69	-0.0
NZD/GBP	0.5363	-0.9			KRW	1,125	-0.0	Shanghai	3,141	+0.2	6.3	Coffee	130.7	-1.3
NZD/JPY	76.70	-0.7			TWD	30.05	-0.2	ASX 200	5,912	+0.7	14.0	WM powder	3250.0	+0.6
NZ TWI	75.02	-0.7			PHP	49.74	+0.1	NZX 50	7,335	+1.6	8.7	<b>Australian Futures</b>		
												3 year bond	98.14	0.02
												10 year bond	97.37	0.02
Interest Rates						NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last			Last			
USD	1.00	1.17	1.59	2.29	USD	2.31	-0.02	NZGB 3 04/15/20	2.31	0.00	1 year	2.07	-0.01	
AUD	1.50	1.75	1.87	2.88	AUD	2.63	0.03	NZGB 6 05/15/21	2.47	0.02	2 year	2.32	-0.02	
NZD	1.75	1.97	2.32	3.40	NZD	3.08	0.06	NZGB 5 1/2 04/15/23	2.76	0.03	5 year	2.90	-0.01	
EUR	0.00	0.06	-0.13	0.80	GER	0.35	-0.03	NZGB 2 3/4 04/15/25	3.02	0.06	7 year	3.16	+0.01	
GBP	0.25	0.33	0.56	1.13	GBP	1.08	-0.00	NZGB 4 1/2 04/15/27	3.08	0.06	10 year	3.40	+0.01	
JPY	-0.07	0.01	0.03	0.21	JPY	0.02	-0.01	NZGB 3 1/2 04/14/33	3.36	0.05	15 year	3.68	+0.01	
CAD	0.50	1.17	1.09	1.80	CAD	1.49	-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 07:06

Source: Bloomberg

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