

27 April 2018



## Events Round-Up

SW: Riksbank interest rate, Apr: -0.5% vs. -0.5% exp.  
EU: ECB depo rate, Apr: -0.4% vs. -0.4% exp.  
US: Advance goods trade balance, Mar: -\$68b vs. -\$75b exp.  
US: Durable goods orders (m/m%), Mar: 2.6% vs. 1.6% exp.  
US: Capital goods orders (non-defence, ex air, m/m%), Mar: -0.1% vs. 0.5% exp.

## Good Morning

US equities have moved higher over the past 24 hours, boosted by stronger earnings (Facebook in particular). The EUR fell to a three month low after Draghi said the Governing Council hadn't discussed monetary policy "per se" at its meeting. The 10 year Treasury yield has drifted back to a little under 3%.

US equity markets have seen a solid move higher overnight (S&P500 +1.3%, NASDAQ 1.9%). Corporate earnings continue to be a supportive driver (81% of companies have beaten expectations so far), with Facebook the latest to beat expectations after the bell yesterday. Facebook was up around 10% overnight. The S&P500 is now around flat for the year, while the NASDAQ has posted a modest (~3%) gain.

Ahead of US Treasury Secretary Mnuchin's planned trip to China (supposedly late next week), Bloomberg reports that the Chinese government was considering halving its import duties on cars. Larry Kudlow, head to the NEC, announced that he was joining the mission and said the talks were "going to cover a broad area. All of the disputes will be discussed." We can expect a resumption of volatility related to US-China trade relations if the negotiations don't yield some sort of an agreement (Trump still threatens \$150b in tariffs on Chinese imports).

The main event overnight was the ECB meeting, where President Draghi acknowledged "some moderation in growth" but noted the economic recovery was still solid and supportive of inflation (eventually) getting to target. Draghi said the slowdown in European growth could reflect some temporary (i.e. weather, timing of Easter) factors and a pullback from the high pace seen last year, but the verdict was still out.

After initially rising above 1.22, the EUR fell to 1.21 (a three month low) after Draghi said "the interesting thing is that we didn't discuss monetary policy per se". Most economists forecast that the ECB will announce its plans for ending QE at its next meeting in June or July, but there is the risk that they central bank delays this if economic data continues to soften and inflation fails to move higher. Bloomberg, quoting ECB sources, reports Draghi overruled a request from Austrian central bank Governor Nowotny to discuss the outlook for QE at this meeting. Bund yields fell around 3bps in response to Draghi's comments, with the first (10bp) rate hike priced for June next year.

The fall in the EUR set the tone for most other currencies. The NZD had risen to 0.7095 before Draghi's comments, but quickly moved back to 0.7060, close to where it was this time yesterday. The NZD has now fallen for eight consecutive sessions, and is now sitting just below our fair value estimate of 0.7170. We haven't changed our targets for the NZD/USD for either the end of the quarter (0.72) or end of the year (0.70) – see the note yesterday from Jason Wong.

The US 10 year Treasury yield has drifted back below 3% overnight (it currently sits at 2.99%). US data was mixed, with the trade balance better than expected but capex data weaker. There weren't too many implications for Q1 GDP released tonight, with the Atlanta Fed GDPNow estimate unchanged at 2% and in line with the consensus estimate among economists. The employment cost index will also be closely watched tonight for any signs of a pick-up in wage growth.

Oil prices have bounced back over the past 24 hours, with Brent crude oil back above \$74 a barrel and close to its recent highs. Despite putting a proposal forward for an enhanced Iran nuclear deal, French President Macron said he expected President Trump to pull out of the deal. Borrowing from the president's language, Macron described the US U-turns on international agreements as "insane". The prospect of new sanctions on Iran threatens to further tighten supply in the oil market. Bloomberg reports that some traders have already stopped signing contracts for Iranian crude whilst others have inserted clauses that allow them to stop taking oil from Iran if sanctions are reimposed.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ ANZ Consumer Confidence Index	Apr		128	10:00
NZ Trade Balance NZD	Mar	275	217	10:45
JN Tokyo CPI Ex-Fresh Food YoY	Apr	0.8	0.8	11:30
GE Unemployment Claims Rate SA	Apr	5.3	5.3	19:55
UK GDP YoY	1Q A	1.4	1.4	20:30
JN BOJ 10-Yr Yield Target	46478	0	0	
US Employment Cost Index	1Q	0.7	0.6	00:30
US GDP Annualized QoQ	1Q A	2	2.9	00:30
US Core PCE QoQ	1Q A	2.6	1.9	00:30
US U. of Mich. Sentiment	Apr F	98	97.8	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	0.7067	-0.0	0.7056	0.7095	CHF	0.9892	+0.6	S&P 500	2,675	+1.4	12.0	Oil (Brent)	74.71	+0.9
AUD	0.7552	-0.2	0.7547	0.7589	SEK	8.657	+1.1	Dow	24,381	+1.3	16.2	Oil (WTI)	68.20	+0.2
EUR	1.2106	-0.5	1.2098	1.2210	NOK	7.989	+0.2	Nasdaq	7,139	+2.0	18.5	Gold	1318.5	-0.3
GBP	1.3926	-0.0	1.3895	1.3998	HKD	7.846	-0.0	Stoxx 50	3,506	+0.6	-2.0	HRC steel	856.0	+1.3
JPY	109.37	-0.1	109.07	109.41	CNY	6.337	+0.2	FTSE	7,421	+0.6	1.8	CRB	201.2	+0.3
CAD	1.2872	+0.2			SGD	1.327	-0.1	DAX	12,500	+0.6	0.2	Wheat Chic.	506.8	-1.6
NZD/AUD	0.9358	+0.2			IDR	13,891	-0.2	CAC 40	5,454	+0.6	3.1	Sugar	11.38	+2.9
NZD/EUR	0.5838	+0.5			THB	31.63	+0.4	Nikkei	22,320	+0.5	15.9	Cotton	84.17	+0.1
NZD/GBP	0.5075	+0.1			KRW	1,081	+0.0	Shanghai	3,075	-1.4	-2.4	Coffee	119.7	+0.5
NZD/JPY	77.29	-0.1			TWD	29.71	-0.0	ASX 200	5,911	-0.2	-0.2	WM powder	3350.0	+0.8
NZD/CAD	0.9097	+0.2			PHP	52.11	-0.4	NZX 50	8,282	-0.1	12.6	<b>Australian Futures</b>		
NZ TWI	73.78	+0.1										3 year bond	97.725	0.02
												10 year bond	97.14	0.05
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.75	2.37	2.75	3.02	USD	2.99	-0.04	NZGB 6 05/15/21	2.12	0.01	1 year	2.14	0.01	
AUD	1.50	2.06	2.19	3.02	AUD	2.86	0.02	NZGB 5 1/2 04/15/23	2.44	0.02	2 year	2.31	0.02	
NZD	1.75	2.04	2.30	3.31	NZD	2.93	0.03	NZGB 2 3/4 04/15/25	2.72	0.03	5 year	2.81	0.04	
EUR	0.00	0.06	-0.13	1.02	GER	0.59	-0.04	NZGB 4 1/2 04/15/27	2.93	0.03	7 year	3.06	0.06	
GBP	0.50	0.76	1.13	1.63	GBP	1.50	-0.04	NZGB 3 04/20/29	3.11	0.03	10 year	3.31	0.06	
JPY	-0.07	-0.03	0.06	0.28	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.31	0.04	15 year	3.57	0.06	
CAD	1.25	1.17	2.27	2.71	CAD	2.36	-0.02	NZGB 2 3/4 04/15/37	3.50	0.04				

\* 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 07:03

Source: Bloomberg

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