

27 February 2018



Events Round-Up

US: New Home Sales, Jan: 593k vs. 648k exp.

Good Morning

Global equity indices moved higher again overnight while bond yields fell slightly ahead of Fed Chair Powell's testimony to Congress. There was no major economic data overnight.

Ahead of Powell's first major address as Fed Chair, US Treasury yields fell a little overnight. The 10 year Treasury yield fell 2bps to 2.85%, 10bps below its intraday highs reached last week. The text of Powell's testimony will be released at 2:30am tomorrow before he answers questions from members of the House. He's likely to face questions on the outlook for Fed policy this year, how the Fed might respond to a potential inflation overshoot, as well as the broader economic outlook.

New home sales data was weaker than expected but this had no impact on markets. Ahead of Powell's testimony, new Fed Vice Chair Quarles will be speaking on the US economy this morning. Also worth keeping an eye out for tomorrow morning, Ben Bernanke is interviewing former Fed Chair Janet Yellen; it's possible she is more candid with her observations on the economy now she has left the Fed.

US equity markets rose again overnight, with the S&P500 and the NASDAQ up around 0.9%. The tech-heavy NASDAQ has outperformed so far this year; it is up more than 6% in 2018 and is around a percent below its record highs from late January. Recent correlations suggest that more hawkish comments from Powell and increases in Treasury yields will push equities lower, and vice versa for a dovish testimony.

The US dollar is broadly unchanged against most of the major currencies from this time yesterday. During the Asian session yesterday, the US dollar weakened across the board, but it has mostly recovered those losses overnight. There was no obvious driver for the intraday moves in the FX market, with the likely explanation being pre-Powell positioning among investors.

The NZD moved from around 0.7280 at lunchtime yesterday to a high of 0.7345 overnight, but it has since returned to 0.73. The NZ trade balance is released this morning. We expect strong growth in both exports and

imports to generate a monthly trade deficit of \$214m (vs. median expectations of 0). There shouldn't be more than a fleeting market reaction to the data. The ANZ Business Survey tomorrow will likely have greater market impact.

The EUR is unchanged from 24 hours ago. ECB President Draghi addressed the European parliament, saying that central bank needed to be patient because of the lack of underlying inflation and low level of headline inflation. Spanish and Germany CPI is released tonight ahead of the all-important Eurozone core CPI data on Wednesday evening (consensus is looking for the YoY rate to remain unchanged at 1%, well below the ECB's target).

In the UK, Labour leader Jeremy Corbyn officially announced the party's intention to remain a member of "a" customs union after leaving the EU. He said *"I appeal to MPs of all parties...to join us in supporting the option of a new UK customs union with the EU."* A small number of pro-EU rebel Conservative MPs have tabled an amendment to the government's Customs Bill (to stay in the customs union) and in so doing have effectively sided with the opposition Labour's own policy. Given Theresa May's slim Parliamentary majority, one possible outcome is a government defeat in the bill, which may then trigger a no confidence vote in the government. While we acknowledge the risks, we remain constructive on GBP for now as we expect a transitional arrangement to be agreed over the coming few months. Despite UK politics remaining in flux, GBP wasn't overly affected overnight, and it might be a case of the market being fatigued by the constant barrage of Brexit-related headlines. Theresa May sets out her ideas for post-Brexit relations on Friday.

Local rates markets took their lead from offshore yesterday. The 10 year swap fell 4.5bps to 3.215%, its lowest level since mid-January. The 2 year swap rate fell 1bp to 2.17%, but remains stuck in a very narrow range.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade Balance NZD	Jan	0	640	10:45
EC	Economic Confidence	Feb	114	114.7	23:00
GE	CPI EU Harmonized YoY	Feb P	1.3	1.4	02:00
US	Advance Goods Trade Balance	Jan	-72.5	-72.3	02:30
US	Durables Ex Transportation	Jan P	0.4	0.7	02:30
US	Conf. Board Consumer Confidence	Feb	126.4	125.4	04:00

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	0.7305	+0.0	0.7298	0.7345	CHF	0.9379	+0.2		S&P 500	2,766	+0.7	16.9	Oil (Brent)	67.72	+0.6
AUD	0.7845	+0.0	0.7826	0.7893	SEK	8.151	-0.3		Dow	25,648	+1.3	23.2	Oil (WTI)	64.07	+0.8
EUR	1.2306	+0.1	1.2278	1.2355	NOK	7.826	-0.3		Nasdaq	7,400	+0.9	26.6	Gold	1332.3	+0.2
GBP	1.3964	-0.1	1.3928	1.4070	HKD	7.823	+0.0		Stoxx 50	3,463	+0.6	4.8	HRC steel	743.0	-0.3
JPY	107.03	+0.1	106.38	107.07	CNY	6.316	-0.3		FTSE	7,290	+0.6	0.6	CRB	196.9	+0.4
CAD	1.2689	+0.4			SGD	1.317	-0.2		DAX	12,527	+0.3	6.1	Wheat Chic.	488.5	+2.0
NZD/AUD	0.9312	+0.1			IDR	13,660	-0.1		CAC 40	5,344	+0.7	10.3	Sugar	13.45	-0.1
NZD/EUR	0.5936	+0.1			THB	31.30	-0.3		Nikkei	22,154	+1.2	15.9	Cotton	82.07	+0.9
NZD/GBP	0.5231	+0.2			KRW	1,073	-0.5		Shanghai	3,330	+1.2	3.1	Coffee	122.1	+0.9
NZD/JPY	78.19	+0.2			TWD	29.23	-0.1		ASX 200	6,042	+0.7	5.6	WMI powder	3235.0	+0.0
NZD/CAD	0.9269	+0.5			PHP	51.93	+0.2		NZX 50	8,341	+0.5	17.8	Australian Futures		
NZ TWI	75.13	-0.0											3 year bond	97.925	0.00
													10 year bond	97.25	0.04
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	1.96	2.49	2.86	USD	2.86	-0.01	NZGB 3 04/15/20	1.87	-0.01	1 year	2.01	-0.01		
AUD	1.50	1.78	2.02	2.93	AUD	2.78	-0.07	NZGB 6 05/15/21	2.05	-0.02	2 year	2.17	-0.01		
NZD	1.75	1.91	2.17	3.22	NZD	2.92	-0.04	NZGB 5 1/2 04/15/23	2.39	-0.02	5 year	2.70	-0.02		
EUR	0.00	0.06	-0.11	1.09	GER	0.65	-0.00	NZGB 2 3/4 04/15/25	2.71	-0.04	7 year	2.95	-0.03		
GBP	0.50	0.57	1.06	1.60	GBP	1.51	-0.01	NZGB 4 1/2 04/15/27	2.92	-0.04	10 year	3.22	-0.04		
JPY	-0.05	-0.07	0.05	0.27	JPY	0.05	-0.01	NZGB 3 1/2 04/14/33	3.27	-0.05	15 year	3.46	-0.04		
CAD	1.25	1.17	2.15	2.59	CAD	2.24	-0.01	NZGB 2 3/4 04/15/37	3.42	-0.05					

* 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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