

27 March 2017

## Events Round-Up

- NZ: Trade balance (\$m), Feb: -18 vs. 180 exp.
- GE: Markit manufacturing PMI, Mar P: 58.3 vs. 56.5 exp.
- GE: Markit services PMI, Mar P: 55.6 vs. 54.5 exp.
- EC: Markit manufacturing PMI, Mar P: 56.2 vs. 55.3 exp.
- EC: Markit services PMI, Mar P: 56.5 vs. 55.3 exp.
- US: Durable goods orders (m/m%), Feb P: 1.7 vs. 1.4 exp.
- US: Durables ex transport (m/m%), Feb P: 0.4 vs. 0.6 exp.
- US: Markit manufacturing PMI, Mar P: 53.4 vs. 54.8 exp.
- US: Markit services PMI, Mar P: 52.9 vs. 54.0 exp.

## Good Morning

On Friday the market was focused on Trump's health bill to repeal Obamacare. As the day wore on it became more obvious that Trump didn't have the numbers to get the vote through the US Congress, resulting in US equities, US Treasury yields and the US dollar drifting lower.

When news finally came through late in the day that Trump had pulled the health bill so no vote would be required, there was a modest reversal of those trends. This was in response to Trump's comments that the next focus would be tax reform, which had much wider support amongst the House Republicans. Nevertheless, it seems likely that the quantum of tax cuts will be less than previously outlined, without the hundreds of billions of dollars in savings available from repealing Obamacare. Trump's failure to get the health bill vote through highlighted the division within his Republican party and the difficulties he faces in achieving his agenda.

Treasury Secretary Mnuchin said that the White House is committed to a tax overhaul that includes corporate and individual tax cuts, but acknowledged that it may be a challenge to get it completed by August.

Overall, the market took Trump's defeat in its stride, with market movements pretty modest overall following the bigger moves earlier in the week. The S&P500 ended the day down just 0.1% but ending the week down 1.4%, the worst weekly performance since Trump was elected. The USD major currency TWI was flat on Friday, consolidating near its low for the month. The US 10-year yield ended down by less than 1bp, closing the week at 2.41%, down 9bps overall for the week.

The NZD traded sideways for much of the session, dipping below 0.70 at one stage, but capping off a range-bound week. It closed the week around 0.7030, about 10pips higher from the previous weekly close. The week ahead doesn't have a lot of potential market drivers, with the NZ and US economic data calendar fairly light and the key releases at the end of the week. Locally, the data release of most interest will be Friday's ANZ business outlook survey, which is expected to dish up another nudge higher in inflation expectations, while confidence indicators likely remained robust. The US sees the release of core PCE deflator data on the same day, but that is likely to show low and steady inflation.

Another barrage of Fed speeches is due next week, but they are unlikely to add to the body of knowledge. Friday's offering saw uber-dove Bullard arguing that further rate hikes were unnecessary, and a "wait-and-see" posture was more appropriate. Dudley argued that a cautious approach to rate hikes was appropriate, as the Fed had outlined.

NZD/AUD closed flat around 0.9220. GBP and JPY slightly underperformed other major currencies, seeing NZD/JPY close up slightly at 78.2 and NZD/GBP up to 0.5630. Another strong month of PMI data helped support the euro, seeing EUR/USD close up around 1.08 and NZD/EUR flirting with 0.65.

There's not much comment to add on the rates market. US Treasury rates barely changed across the curve. It was the same for the NZ market, with swap rates up about 1bp across the curve, with the 2-year rate closing at 2.32% and the 10-year rate at 3.45%. Looking at the economic calendar there doesn't seem much on it to drive rates out of familiar ranges this week. The next 24 hours should be quiet with Germany's IFO business survey the only notable release.

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## Coming Up

	Period	Cons.	Prev.	NZT
GE IFO Business expectations	Mar	104.3	104	21:00

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	0.7028	-0.0	0.6995	0.7037	CHF	0.9914	-0.2	S&P 500	2,344	-0.1	15.1	Oil (Brent)	50.80	+0.5
AUD	0.7623	-0.1	0.7604	0.7630	SEK	8.808	-0.2	Dow	20,597	-0.3	17.6	Oil (WTI)	47.97	+0.6
EUR	1.0798	+0.1	1.0761	1.0815	NOK	8.495	+0.1	Nasdaq	5,829	+0.2	22.1	Gold	1248.5	+0.1
GBP	1.2473	-0.4	1.2469	1.2508	HKD	7.766	-0.0	Stoxx 50	3,444	-0.2	15.3	HRC steel	648.0	-0.8
JPY	111.34	+0.4	110.78	111.48	CNY	6.884	-0.0	FTSE	7,337	-0.1	20.1	CRB	183.5	-0.1
CAD	1.3378	+0.2			SGD	1.399	-0.0	DAX	12,064	+0.2	22.5	Wheat Chic.	439.5	+0.8
NZD/AUD	0.9219	+0.0			IDR	13,327	+0.0	CAC 40	5,021	+0.2	16.0	Sugar	17.71	+0.6
NZD/EUR	0.6509	-0.2			THB	34.57	-0.1	Nikkei	19,263	+0.9	13.3	Cotton	77.47	+0.3
NZD/GBP	0.5635	+0.4			KRW	1,123	+0.0	Shanghai	3,269	+0.6	9.7	Coffee	137.6	-2.1
NZD/JPY	78.25	+0.3			TWD	30.48	-0.0	ASX 200	5,754	+0.8	13.2	WM powder	2880.0	-0.2
NZ TWI	76.45	+0.0			PHP	50.25	-0.4	NZX 50	7,074	+0.2	6.2	<b>Australian Futures</b>		
												3 year bond	98.02	0.01
												10 year bond	97.22	0.01
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates				Swap Yields		Benchmark 10 Yr Bonds		Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.00	1.15	1.62	2.40	USD	2.412	-0.01	NZGB 3 04/15/20	2.360	0.01	1 year	2.078	+0.01	
AUD	1.50	1.80	1.95	2.99	AUD	2.75	-0.01	NZGB 6 05/15/21	2.525	0.01	2 year	2.318	+0.01	
NZD	1.75	1.98	2.32	3.45	NZD	3.21	0.00	NZGB 5 1/2 04/15/23	2.810	0.01	5 year	2.930	+0.01	
EUR	0.00	0.06	-0.09	0.83	GER	0.40	-0.03	NZGB 2 3/4 04/15/25	3.110	0.00	7 year	3.198	+0.01	
GBP	0.25	0.34	0.65	1.26	GBP	1.20	-0.03	NZGB 4 1/2 04/15/27	3.210	0.00	10 year	3.453	+0.01	
JPY	-0.03	0.04	0.05	0.26	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.570	0.00	15 year	3.758	+0.01	
CAD	0.50	1.17	1.11	1.90	CAD	1.64	-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: NY close Sat morning

Source: Bloomberg

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