

27 March 2018



Events Round-Up

NZ: Trade Balance, Feb: \$217m vs. -\$100m exp.

Good Morning

With no major economic data released overnight, headlines around US-China trade tensions remained the dominant market driver. After falling sharply last week, US stocks bounced back overnight on hopes that the two sides could negotiate an agreement and avoid the use of tariffs. The USD is weaker once again and at one-month lows. The NZD/AUD made an eight month high, as it broke above 0.94.

The S&P500 is up over 2%, erasing almost all of Friday's losses, on renewed optimism around the US and China reaching some sort of agreement on trade. The market has reacted positively to US Treasury Secretary Mnuchin's comments on the weekend that he was "cautiously hopeful" they could reach an agreement to avert the recently announced \$60b tariffs on China. Overnight, White House trade advisor Peter Navarro revealed "we are already at the negotiating table" while Chinese Premier Li Keqiang made conciliatory comments around opening up the Chinese market. Amongst other things, the US is reportedly attempting to secure reduced US tariffs on car exports to China as well as improved access to the Chinese financial sector for US institutions. The market hopes that Trump's announcement of \$60b of tariffs on China was part of an opening salvo in negotiations and that the two sides can reach some common ground around increased US access to Chinese markets.

Facebook remained in the headlines, with the US Free Trade Commission officially launching an investigation into the company, as reported by US media last week. Facebook shares initially fell more than 6%, which appeared to weigh on the broader US indices, but it has since pared most of those losses to be down less than 2% on the day. The Nasdaq is up 2.5% on the day, even more than the S&P.

In currency markets, the USD is broadly weaker once again, although it's not obvious to us what the catalysts for that were on the day. The Bloomberg DXY is down around 0.4% and back near to the multi-year lows reached in February. Bloomberg suggests one possible reason for the dollar weakness is media reports that current San

Francisco President John Williams is a front-runner for the soon-to-be-vacant New York Fed President role. But while Williams has in the past published research that suggests the 'neutral rate' in the US is very low, in recent years he has generally been on the more hawkish end of the FOMC. The market's focus on the large, and growing, US twin deficits is probably keeping sentiment towards the USD negative for now.

Against a backdrop of USD weakness and improved risk sentiment, the NZD has performed strongly and is up almost a percent on the day to 0.73. There was little market reaction to the signing of the Policy Targets Agreement yesterday, which added "supporting maximum sustainable employment" alongside price stability, as most market participants expected. The PTA reiterated a continued focus on the mid-point of the 1-3% target range. Local rates markets also saw little movement yesterday, with swap yields moving up slightly.

The NZD/AUD has moved higher as well, breaking out of the 0.9250 – 0.9400 range that had prevailed for most of the past month. The NZD/AUD is at 0.9435, and at around eight month highs. Weakness in industrial commodities over the past month has probably weighed on the AUD and helped support NZD/AUD, although it now sits above the top end of our fair value estimates.

Other market moves are consistent with an improvement in risk appetite. The yen is weaker and the Swiss franc has underperformed in FX markets. In bonds, the US 10 year Treasury yield is up around 2bps to 2.84%. The Treasury is expected to issue \$294b in Treasury bills and bonds this week, which would make it a record (although a large chunk of the issuance is tilted towards short-term Treasury bills).

There's no major economic data out overnight, although there will be some focus on comments from Fed Vice Chair Quarles.

Nick.Smyth@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT	
US	Fed's Quarles to Speak in Atlanta			12:10	
EC	Economic Confidence	Mar	113.3	114.1	22:00
US	Conf. Board Consumer Confidence	Mar	131	130.8	03:00
US	Fed's Bostic Speaks at Economic Conference in Atlanta			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	0.7296	+0.9	0.7264	0.7299	CHF	0.9439	-0.4		S&P 500	2,629	+1.5	12.2	
AUD	0.7731	+0.4	0.7713	0.7749	SEK	8.189	-0.7		Dow	23,939	+1.8	16.2	
EUR	1.2453	+0.8	1.2359	1.2456	NOK	7.686	-1.0		Nasdaq	7,105	+1.7	21.9	
GBP	1.4230	+0.7	1.4152	1.4245	HKD	7.846	+0.0		Stoxx 50	3,279	-0.6	-4.8	
JPY	105.13	+0.4	104.86	105.26	CNY	6.273	-0.7		FTSE	6,889	-0.5	-6.1	
CAD	1.2881	-0.1			SGD	1.310	-0.4		DAX	11,787	-0.8	-2.3	
NZD/AUD	0.9437	+0.4			IDR	13,738	-0.3		CAC 40	5,066	+0.5	0.9	
NZD/EUR	0.5859	+0.0			THB	31.13	-0.2		Nikkei	20,766	+0.7	9.4	
NZD/GBP	0.5127	+0.1			KRW	1,081	-0.1		Shanghai	3,134	-0.6	-4.1	
NZD/JPY	76.70	+1.3			TWD	29.12	-0.2		ASX 200	5,790	-0.5	0.8	
NZD/CAD	0.9398	+0.8			PHP	52.23	-0.2		NZX 50	8,432	-1.0	19.4	
NZ TWI	74.95	+0.5											

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	1.75	2.29	2.61	2.87	USD	2.84	0.02	NZGB 6 05/15/21	2.04	0.02	1 year	2.10	0.02
AUD	1.50	2.00	2.07	2.88	AUD	2.66	0.01	NZGB 5 1/2 04/15/23	2.32	0.02	2 year	2.24	0.01
NZD	1.75	1.97	2.24	3.13	NZD	2.78	0.02	NZGB 2 3/4 04/15/25	2.57	0.02	5 year	2.67	0.01
EUR	0.00	0.06	-0.16	1.00	GER	0.52	-0.00	NZGB 4 1/2 04/15/27	2.78	0.02	7 year	2.90	0.02
GBP	0.50	0.66	1.12	1.56	GBP	1.44	-0.01	NZGB 3 04/20/29	2.95	0.02	10 year	3.13	0.02
JPY	-0.06	-0.04	0.04	0.24	JPY	0.02	0.00	NZGB 3 1/2 04/14/33	3.14	0.02	15 year	3.37	0.02
CAD	1.25	1.17	2.26	2.61	CAD	2.22	0.02	NZGB 2 3/4 04/15/37	3.29	0.02			

* 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 07:00

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rate Strategist
+64 4 924 7653

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109

Gavin Friend

Senior Market Strategist
+44 20 7710 1588

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Alex Stanley

Senior Interest Rate Strategist
+61 2 9237 8154

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