

28 April 2017

Events Round-Up

JN: BOJ policy balance rate (%), Apr: -0.1 vs. -0.1 exp.
JN: BOJ 10-Yr yield target (%), Apr: 0.0 vs. 0.0 exp.
GE: GfK consumer confidence, May: 10.2 vs. 9.9 exp.
EC: economic confidence, Apr: 109.6 vs. 108.2 exp.
EC: ECB deposit facility rate (%), Apr: -0.4 vs. -0.4 exp.
EC: ECB asset purchase target (€bn), Apr: 60 vs. 60 exp.
GE: CPI EU harmonised (y/y%), Apr P: 2.0 vs. 1.9 exp.
US: Advance goods trade (\$bn), Mar: -64.8 vs. -65.2 exp.
US: Durable goods orders (m/m%), Mar P: 0.7 vs. 1.3 exp.
US: Pending home sales (m/m%), Mar: -0.8 vs. -1.0 exp.

Good Morning

There has been a mountain of policy announcements and data to wade through over the past 24 hours but the net result has been modest currency movements, and small changes in equity prices and bond yields.

The only real surprise has been Sweden's Riksbank announcing that it would purchase an additional SEK15bn of government bonds, with Governor Ingves having to use his casting vote to break the divided board. The Swedish Krona is at the bottom of the leaderboard, falling 0.7% against the USD.

The real focus for the day though was on the ECB's policy announcement. The ECB left policy settings unchanged and, after the communication mishap in March, President Draghi was very careful with his words. The ECB is not yet sufficiently confident that inflation is converging to target in a sustainable way and growth risks, while moving towards a more balanced configuration, are still tilted downwards. The central bank retained its pledge to "keep rates at present or lower levels for extended period of time". Many in the market, including ourselves, see that dovish guidance removed in the June meeting. EUR traded in an 80pip range and is down slightly for the session at 1.0880.

There were a number of data releases, but these had little market impact. The key US data releases including durable goods orders, trade and pending home sales slightly disappointed. The weekly Bloomberg consumer comfort index, which isn't as widely followed, showed consumer confidence rebounding last week to its highest level since 2001. Euro-area activity data remained strong, with confidence rising to its highest level in a decade.

Germany CPI inflation rebounded back to 2.0%.

On the policy front, the general reaction to yesterday's White House announcement on tax reform was one of disappointment. The "massive" tax cuts have little chance of going through in the proposed form and the lack of detail suggested that much more thought needs to come. It keeps alive the prospect of an easing in US fiscal policy, but any further clarity is still some time away. More market reaction was been evident after reports came through that Trump would not terminate NAFTA "at this time" following reports earlier yesterday that he would end NAFTA. The Canadian dollar strengthened but has given up that gain as oil prices have weakened again. WTI crude fell to as low as \$48.20, with Libya's biggest oil field now operating again, but has since recovered to around \$49. CAD is flat at 1.3620.

The NZD remains unloved and has probed important technical support levels. It fell to around 0.6850, taking it below December's low, but that was only a brief excursion and it trades around 0.6875 at present. We'll call 0.6850 as a key support level. A sustained break of that would mean a gap to the next support level of 0.6675. NZX whole milk powder prices slipped 1.7% yesterday after a report on a big rise in production in March, supported by the wet autumn which allowed plenty of grass growth. However, we don't think that was a factor in the softer NZD as the currency didn't respond to the recent 25% uplift in WMP prices.

Nor does the market seem to be factoring in a likely less dovish RBNZ next month or the improved fiscal settings. Yesterday, Finance Minister Joyce gave a pre-Budget speech where he outlined a boost to infrastructure spending and would look to raise income tax thresholds. The strength of NZ's fiscal accounts would also enable further debt reduction, with a new medium-term target of net debt falling to 10-15% of GDP by 2025.

The NZD is flat to down on the key crosses, although movements have been modest. GBP has been the strongest major for no particular reason, seeing NZD/GBP down 0.6% to 0.5330.

The BoJ's policy meeting was as uneventful as expected, with no change to policy settings and little change in forecasts. Meeting the inflation target remains a distant prospect, with Governor Kuroda indicating that CPI inflation probably won't stabilise above 2% until after fiscal 2018, which is two years away. JPY is little changed, while NZD/JPY is around 76.5.

US Treasury rates have traded in a tight range, with the 10-year rate down a touch to 2.29%. Clearly, the market isn't giving much weight to the "massive" tax cuts and prospect of rising fiscal deficits and debt. To see a major reaction in Treasuries the market will need to see more detail and have confidence that easier fiscal policy will get through the Washington gridlock. The lack of a more hawkish tone from the ECB helped drive German 10-year rates down 6bps to 0.29% and this likely had some spill-over impact into the US market.

There were only small changes to NZ swap rates yesterday, with movements all within 1bp. There was slightly more movement in the bond market. The DMO's tender of \$150m 2037 bonds met strong demand with a bid-cover ratio of 3.3. The 20-year bond closed the day down 2bps to 3.58%.

The calendar ahead is action packed again as the table suggests. US Q1 GDP will be the focus, where a soft result around 1.0% annualised is anticipated.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Building permits (m/m%)	Mar		14.0	10:45
NZ Trade balance, \$m	Mar	370	-18	10:45
UK GfK consumer confidence	Apr	-7	-6	11:01
JN Household spending, y/y%	Mar	-0.5	-3.8	11:30
JN CPI (y/y%)	Mar	0.3	0.3	11:30
JN CPI ex fresh food, energy (y/y%)	Mar	0.0	0.1	11:30
JN Retail trade (y/y%)	Mar	1.5	0.1	11:50
JN Industrial production (y/y%)	Mar P	3.9	4.7	11:50
NZ ANZ activity outlook (net %)	Apr		38.8	13:00
UK GDP (q/q%)	1Q A	0.4	0.7	20:30
UK GDP (y/y%)	1Q A	2.2	1.9	20:30
EC CPI Estimate, y/y%	Apr	1.8	1.5	21:00
EC CPI core (y/y%)	Apr A	1.0	0.7	21:00
US Employment cost index, q/q%	1Q	0.6	0.5	00:30
US GDP Annualised q/q%	1Q A	1.0	2.1	00:30
US Core PCE annualised q/q%	1Q A	2.0	1.3	00:30
US Chicago Purchasing Manager	Apr	56.4	57.7	01:45
US U. of Mich. Sentiment	Apr F	98.0	98.0	02:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High	Last	% Day	Last	% Day	% Year		Last	Net Day		
NZD	0.6876	-0.2	0.6852	0.6919	CHF	0.9938	+0.1	S&P 500	2,391	+0.1	14.1	Oil (Brent)	51.64	-0.3
AUD	0.7470	-0.1	0.7440	0.7490	SEK	8.831	+0.8	Dow	20,984	+0.0	16.3	Oil (WTI)	49.15	-0.9
EUR	1.0878	-0.2	1.0852	1.0933	NOK	8.573	-0.1	Nasdaq	6,046	+0.3	24.3	Gold	1266.3	+0.2
GBP	1.2903	+0.4	1.2864	1.2917	HKD	7.781	+0.0	Stoxx 50	3,563	-0.4	13.8	HRC steel	625.0	-2.0
JPY	111.23	+0.2	111.05	111.60	CNY	6.898	+0.1	FTSE	7,237	-0.7	14.5	CRB	180.5	-0.7
CAD	1.3621	+0.0			SGD	1.397	+0.1	DAX	12,444	-0.2	20.8	Wheat Chic.	431.3	+1.1
NZD/AUD	0.9205	-0.2			IDR	13,314	+0.2	CAC 40	5,272	+0.2	15.6	Sugar	15.18	-1.3
NZD/EUR	0.6321	+0.0			THB	34.60	+0.3	Nikkei	19,252	-0.2	15.5	Cotton	79.32	-1.7
NZD/GBP	0.5329	-0.6			KRW	1,130	+0.4	Shanghai	3,152	+0.4	7.0	Coffee	129.5	-0.9
NZD/JPY	76.48	-0.1			TWD	30.16	+0.4	ASX 200	5,921	+0.2	13.3	W/M powder	3175.0	-1.7
NZ TWI	74.93	-0.1			PHP	50.13	+0.8	NZX 50	7,355	+0.3	8.3	Australian Futures		
Interest Rates						NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last				
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day		Last		Last			
USD	1.00	1.17	1.57	2.27	USD	2.29	-0.01	NZGB 3 04/15/20	2.31	-0.00	1 year	2.07	+0.00	
AUD	1.50	1.75	1.86	2.86	AUD	2.61	-0.02	NZGB 6 05/15/21	2.46	-0.01	2 year	2.32	-0.00	
NZD	1.75	1.97	2.31	3.39	NZD	3.08	-0.00	NZGB 5 1/2 04/15/23	2.75	-0.01	5 year	2.90	-0.00	
EUR	0.00	0.06	-0.15	0.77	GER	0.30	-0.06	NZGB 2 3/4 04/15/25	3.01	-0.01	7 year	3.15	-0.01	
GBP	0.25	0.32	0.55	1.13	GBP	1.06	-0.02	NZGB 4 1/2 04/15/27	3.08	-0.00	10 year	3.39	-0.01	
JPY	-0.07	0.00	0.03	0.22	JPY	0.02	0.01	NZGB 3 1/2 04/14/33	3.34	-0.02	15 year	3.67	-0.01	
CAD	0.50	1.17	1.08	1.79	CAD	1.58	0.10							

* 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 07:04

Source: Bloomberg

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