

28 March 2018



## Events Round-Up

EU: Economic Confidence, Mar: 112.6 vs. 113.3 exp.

US: Conference Board Consumer Confidence, Mar: 127.7 vs. 130.8 exp.

## Good Morning

Market moves were reasonably modest overnight, with no top tier economic data being released and not much in the way of headlines around US-China trade negotiations. US bond yields fell, possibly related to month-end buying while US equities also gave back some of their gains from yesterday.

After closing 2.7% higher yesterday, the S&P500 is slightly lower today against a backdrop of renewed market optimism that US-China negotiations might avert the need for major trade tariffs. Other major equity markets had also benefited yesterday from the more positive sentiment around US-China trade, with the German Dax up 1.6% and the Nikkei matching the 2.7% of the S&P500. With the market now aware the US and China are at the negotiating table, the market may unwind some more of the risk premium related to trade tensions.

The Nasdaq is down more than 1% overnight, underperforming the Dow and S&P500, supposedly on comments overnight from US Commerce Secretary Wilbur Ross that "there will be limits on foreign investment" from China into certain, sensitive US tech sectors. This shouldn't surprise anyone though – Trump tasked Treasury Secretary Mnuchin last week to come up with solutions to deal with Chinese investment in critical US technologies, and Trump recently blocked a hostile takeover of Qualcomm on national security grounds.

The US 10 year bond yield fell 5bps overnight to 2.80%, which is at the bottom of its recent trading range. There wasn't an obvious macro catalyst for the decline in yields. US consumer confidence was a little weaker than expected, but remained at very healthy levels overall, and the labour market differential (jobs plentiful minus jobs hard to get) hit a fresh 18 year high, suggestive of continued strong job growth. Anticipation of month-end bond buying by passive bond funds may have contributed to the decline in yields. Short covering among speculative investors (short positions are at near record levels) may be another explanation.

The yield curve flattened, with the spread between 2 and 10 year bonds approaching its flattest levels since 2007, just above 50bps. Treasury bond supply this week has been tilted towards the shorter-end which may have contributed to the flattening at the margin. \$35b 5 year Treasury bonds were issued today alongside more Treasury bills.

In FX markets, the USD is generally stronger, reversing some of the moves from the prior day. The JPY and CHF are the outperformers (although still down against the USD on the day) amid a mild risk-off sentiment.

Having reached as high as 1.2477 yesterday, the EUR has fallen back to just above 1.24 now. The EUR has failed to decisively break above 1.25 on several occasions so far this year, and some profit-taking in advance of this level was to be expected. Eurozone Economic Confidence was a little weaker than expected overnight, continuing the trend of some softening in European data (such as the PMIs) in recent months, although still consistent with strong growth in the Eurozone. Comments from ECB official Liikanen overnight that the bank's QE programme could be extended were brushed off by the market. The market expects QE to finish in either September or December this year, with the real debate to centre on the timing and scale of any rate rises in 2019. The first (10bp) hike is priced-in for June next year.

The NZD is a little weaker than this time yesterday, in line with the appreciation in the USD overnight. NZD/AUD has pushed on to fresh highs, and is currently sitting just above 0.9450 (the AUD has once again been one of the underperformers amongst G10 FX). Local rates markets saw little move yesterday, although swap rates should fall today on the back of the moves in US Treasuries. This morning we have the ANZ Business Survey.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Activity Outlook	Mar		20.4	13:00
NZ	ANZ Business Confidence	Mar		-19	13:00
US	Advance Goods Trade Balance	Feb	-74.4	-75.3	01:30
US	GDP Annualized QoQ	4Q T	2.7	2.5	01:30
US	Core PCE QoQ	4Q T	1.9	1.9	01:30
US	Pending Home Sales MoM	Feb	2	-4.7	03:00

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	0.7272	-0.4	0.7260	0.7297	CHF	0.9473	+0.2			S&P 500	2,662	+0.1	13.7	Oil (Brent)	69.97	-0.2
AUD	0.7695	-0.7	0.7696	0.7744	SEK	8.222	+0.4			Dow	24,246	+0.2	18.0	Oil (WTI)	65.19	-0.5
EUR	1.2409	-0.3	1.2373	1.2476	NOK	7.700	+0.2			Nasdaq	7,154	-1.0	22.5	Gold	1349.5	-0.8
GBP	1.4161	-0.5	1.4066	1.4244	HKD	7.847	+0.0			Stoxx 50	3,317	+1.2	-3.5	HRC steel	825.0	+0.0
JPY	105.66	+0.2	105.45	105.90	CNY	6.283	+0.2			FTSE	7,000	+1.6	-4.0	CRB	195.7	-0.1
CAD	1.2876	+0.3			SGD	1.309	+0.0			DAX	11,971	+1.6	-0.2	Wheat Chic.	466.8	-1.0
NZD/AUD	0.9450	+0.3			IDR	13,742	+0.0			CAC 40	5,116	+1.2	2.0	Sugar	12.54	+1.0
NZD/EUR	0.5860	-0.1			THB	31.18	+0.2			Nikkei	21,317	+2.7	11.0	Cotton	82.20	+0.5
NZD/GBP	0.5135	+0.1			KRW	1,070	-1.0			Shanghai	3,167	+1.1	-2.7	Coffee	119.0	+0.6
NZD/JPY	76.84	-0.1			TWD	29.12	+0.0			ASX 200	5,832	+0.7	0.2	WM powder	3160.0	-0.3
NZD/CAD	0.9363	-0.1			PHP	52.42	+0.4			NZX 50	8,508	+0.9	20.4	<b>Australian Futures</b>		
NZ TWI	74.84	-0.1												3 year bond	97.86	0.03
														10 year bond	97.36	0.05

  

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	2.56	2.82	USD	2.80	-0.05	NZGB 6 05/15/21	2.05	0.01	1 year	2.09	-0.01
AUD	1.50	2.01	2.05	2.84	AUD	2.65	-0.01	NZGB 5 1/2 04/15/23	2.33	0.01	2 year	2.24	0.00
NZD	1.75	1.96	2.23	3.14	NZD	2.79	0.01	NZGB 2 3/4 04/15/25	2.58	0.01	5 year	2.68	0.00
EUR	0.00	0.06	-0.16	0.97	GER	0.50	-0.02	NZGB 4 1/2 04/15/27	2.79	0.01	7 year	2.90	0.00
GBP	0.50	0.67	1.13	1.54	GBP	1.42	-0.02	NZGB 3 04/20/29	2.98	0.02	10 year	3.14	0.01
JPY	-0.06	-0.04	0.05	0.25	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.16	0.01	15 year	3.38	0.01
CAD	1.25	1.17	2.22	2.56	CAD	2.16	-0.08	NZGB 2 3/4 04/15/37	3.31	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 06:52

Source: Bloomberg

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