

29 January 2018



Events Round-Up

JN: CPI ex fresh food, energy (y/y%), Dec: 0.3 vs. 0.4 exp.

UK: GDP (q/q%), Q4: 0.5 vs. 0.4 exp.

CA: CPI (y/y%), Dec: 1.9 vs. 1.9 exp.

US: GDP (annualised q/q%), Q4: 2.6 vs. 3.0 exp.

US: Core PCE deflator (ann. q/q%), Q4: 1.9 vs 1.9 exp.

US: Durable goods orders (m/m%), Dec: 2.9 vs. 0.8 exp.

Good Morning

The USD ended the week on a soft note helping to propel US equities to another record high, while global bond rates drifted higher. For the week, the NZD was 1% higher against the USD but down slightly on all the other major crosses.

The bull market in equities continues, with the S&P piling on another 1.2% to a fresh record high, driven by record inflows into equity funds, a positive earnings season and a weak USD. US GDP growth in Q4 came in slightly below expectations, weighed down by softer inventories and a wider trade deficit but components of domestic demand were strong. Core PCE inflation of 1.9% (annualised) and 1.5% y/y matched expectations.

Soon after our daily on Friday was sent out, the USD shot up after President Trump said that he ultimately wants to see a strong USD and that Treasury Secretary Mnuchin's comments that a weaker dollar is good for trade were taken out of context. That move reflected how short traders of USD had become and the sensitivities around US trade policy at present. However, the move wasn't sustained and USD weakness set in again. Bloomberg's dollar index fell for the seventh consecutive week, making the recent trend look fairly ominous with all key technical support levels now clearly breached.

On Friday the focus on the World Economic Forum continued. In his keynote speech, President Trump offered a conciliatory tone, suggesting that his "America First" policy doesn't mean "America Alone". He said that the US still supports free trade as long as it is "fair and reciprocal". His comments had no impact on the dollar.

The BoJ's Kuroda had an impact, with his comments noting some progress on wages and prices, with Japan "finally close" to its 2% inflation target. This saw a leg

down in USD/JPY to a 4-month low of 108.28, before a BoJ spokesman clarified that Kuroda's comment was not different from the view stated in the last official statement, with 2% not being reached until fiscal 2019, and this saw a modest reversal. NZD/JPY traded just under the 80 mark, back to levels seen earlier this month.

Trump's "strong USD" comment early Friday saw the NZD step down from 0.7375 to as low as 0.7291 by noon, before staging a recovery, closing the week around 0.7360. For the week, the NZD underperformed against all but the USD, with Thursday's weak CPI result doing the damage. The market isn't reading any implications of the weak NZ CPI result for the Australian figure this Wednesday. The AUD was one of the best performing currencies on Friday, rising to a high of 0.8136, a level not seen since mid-2015. AUD strength meant NZD/AUD closed the week down at around 0.9075.

Slightly stronger UK GDP for Q4 only had a short-term impact in GBP and it ending up falling over 100pips to close the week around 1.4160. NZD/GBP got down close to 0.5150 before closing the week nearer 0.52.

In the global bond market, rates were generally higher, with Germany's 10-year rate up 2bps to its highest level in 2-years of 0.62%. US 10-year Treasury yields drifted higher, up 4bps from the NZ close to 2.66%, threatening to break out. The 2.66-2.67% level was tested a number of times last week but that level has held, after the steady increase over the first three weeks of the year. The local market was quiet, with the Australia day holiday a factor, and Friday night's moves should impart an upside bias to rates as the new week begins.

The dataflow picks up a gear as the week progresses, culminating in the US employment report on Friday. Ahead of that the FOMC is expected to play a straight bat, with the market convinced that the Fed will hold off another rate hike until the March meeting. Only second-tier local data is scheduled this week, with Australian CPI and China PMI data offering the chance of some spillover for the NZD and rates.

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Coming Up

	Period	Cons.	Prev.	NZT
US Personal Income	Dec	0.3	0.3	02:30
US Personal Spending	Dec	0.4	0.6	02:30
US PCE Core YoY	Dec	1.5	1.5	02:30

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	0.7359	+0.3	0.7324	0.7375	CHF	0.9324	-0.9		S&P 500	2,873	+1.2	25.2	Oil (Brent)	70.52	+0.1
AUD	0.8110	+1.0	0.8044	0.8114	SEK	7.868	-0.7		Dow	26,617	+0.8	32.5	Oil (WTI)	66.14	+1.0
EUR	1.2427	+0.3	1.2408	1.2494	NOK	7.690	-0.7		Nasdaq	7,506	+1.3	32.6	Gold	1352.1	-0.8
GBP	1.4160	+0.1	1.4145	1.4285	HKD	7.818	+0.0		Stoxx 50	3,647	+0.5	10.4	HRC steel	679.0	+0.0
JPY	108.58	-0.8	108.28	109.59	CNY	6.328	+0.0		FTSE	7,666	+0.7	6.7	CRB	200.5	+0.6
CAD	1.2308	-0.6			SGD	1.307	-0.2		DAX	13,340	+0.3	12.9	Wheat Chic.	453.8	+1.5
NZD/AUD	0.9074	-0.6			IDR	13,306	+0.1		CAC 40	5,529	-0.0	14.2	Sugar	13.36	+0.9
NZD/EUR	0.5922	+0.2			THB	31.34	-0.4		Nikkei	23,632	-0.2	21.4	Cotton	80.48	-1.7
NZD/GBP	0.5197	+0.4			KRW	1,064	+0.5		Shanghai	3,558	+0.3	12.6	Coffee	125.2	+1.2
NZD/JPY	79.90	-0.4			TWD	29.09	+0.1		ASX 200	6,050	-0.1	6.7	WM powder	3150.0	+0.2
NZD/CAD	0.9057	-0.2			PHP	50.92	+0.0		NZX 50	8,311	-0.7	16.5	Australian Futures		
NZ TWI	74.89	+0.0											3 year bond	97.725	-0.03
													10 year bond	97.14	-0.03
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	1.76	2.30	2.68	USD	2.66	0.04	NZGB 3 04/15/20	1.95	-0.01	1 year	1.97	-0.00		
AUD	1.50	1.79	2.10	3.01	AUD	2.85	0.00	NZGB 6 05/15/21	2.15	-0.01	2 year	2.17	-0.01		
NZD	1.75	1.88	2.17	3.22	NZD	2.90	-0.01	NZGB 5 1/2 04/15/23	2.43	-0.01	5 year	2.70	-0.01		
EUR	0.00	0.06	-0.11	1.01	GER	0.63	0.02	NZGB 2 3/4 04/15/25	2.70	-0.01	7 year	2.96	-0.01		
GBP	0.50	0.53	0.93	1.52	GBP	1.44	0.03	NZGB 4 1/2 04/15/27	2.90	-0.01	10 year	3.22	-0.01		
JPY	-0.04	-0.04	0.06	0.29	JPY	0.08	-0.01	NZGB 3 1/2 04/14/33	3.24	-0.01	15 year	3.47	-0.01		
CAD	1.25	1.17	2.17	2.60	CAD	2.26	0.02	NZGB 2 3/4 04/15/37	3.39	-0.01					

* 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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