

29 March 2018



Events Round-Up

NZ: ANZ Activity Outlook, Mar: 21.8 vs. 20.4 prev.
NZ: ANZ Business Confidence, Mar: -20 vs. -19 prev.
US: Trade Balance, Feb: -\$75.4b vs. -\$74.4b exp.
US: GDP (q/q% annualised), Q4: 2.9% vs. 2.7% exp.
US: Core PCE deflator (q/q% annualised), Q4: 1.9% vs. 1.9% exp.
US: Pending Home Sales (m/m%), Feb: 3.1% vs. 2% exp.

Good Morning

The S&P500 has stabilized overnight after sustaining heavy falls late in the New York session yesterday. The 10 year Treasury yield broke below its recent trading range yesterday and the US yield curve flattened its narrowest level since 2007. The USD is broadly stronger but remains within recent ranges.

After our Report went out yesterday, US equities weakened substantially into the New York close. The NASDAQ, which had already been underperforming the other major US indices on reports that the US had plans restrictions on Chinese investment into US tech, fell 3%, fully erasing the gains from Tuesday. The S&P500 was almost 2% lower. Overnight, equity markets have shown signs of stabilizing; the NASDAQ has recovered from an initial 1.5% fall to be down 0.6% on the day, while the S&P500 is around flat. Increased regulatory scrutiny on US tech firms in the wake of the Facebook data privacy scandal and uncertainty over the US administration's trade and investment policy have weighed on the NASDAQ (a popular position in the investment community) of late.

Amidst the decline in US equities yesterday, the 10 year Treasury yield broke below 2.80%, the bottom of its recent trading range, triggering some further short covering among speculative investors. It fell to as low as 2.74% overnight, although it has recovered in the last hour to 2.78%, unchanged on the day, after the US Treasury 7 year auction met weak demand. US 4th quarter GDP was revised up slightly and US home sales data was a bit better than expected, but this had little impact on yields. The US yield curve has flattened again, with the spread between the 2 year and 10 year Treasury now at 48bps, its narrowest level since 2007. Yields elsewhere have fallen as well, with the 10 year German bund back below 0.5%, the first time since the start of the year.

The USD is broadly stronger for the second day running, with the Bloomberg DXY up just over 0.3%. Looking past the day-to-day volatility, after falling sharply earlier this year, the USD looks to have settled into a range for now.

Surprisingly, the Japanese yen and Swiss Franc – both noted “safe haven” currencies – are weaker over the past 24 hours, despite the meltdown in US equities towards the close of trading yesterday. The yen is down almost 1% over the past 24 hours, an indication that recent equity turbulence hasn't been reflective of a broader risk-off move across asset classes. FX implied volatility for the major currencies also remain at reasonably contained levels, in contrast to the recent spike in the VIX.

The GBP received a boost in the Asian session yesterday after a report in the Times that the UK was going to propose new plans “imminently” for dealing with the thorny issue of the Irish border (no specific details given). To the extent the proposal is acceptable to the EU and the Conservative's Northern Irish coalition partner, this would help pave the way for a legally binding transitional agreement. The GBP is down against the USD but up against most of the other G10 currencies.

There wasn't much in the way of US-China trade headlines overnight, but in terms of NAFTA, U.S. Trade Representative Robert Lighthizer said I'm optimistic we can get something done in principle in the next little bit.” On the back of this, the Mexican peso strengthened against the USD overnight (the only major currency to do so) while the Canadian dollar has outperformed the rest of G10 FX.

Against a backdrop of a stronger USD, the NZD has fallen from around 0.7275 this time yesterday to just above 0.72 now. The NZD/AUD has also retreated from its recent highs and now sits just above 0.94. The ANZ Business Survey yesterday was little changed from the previous month and didn't move markets. In local rates markets, there was a substantial fall in longer-term NZ swap rates, largely due to the decline in US Treasury yields the previous session. The 10 year swap rate fell 8bps to its lowest level since September last year.

In the day ahead, UK and Canadian GDP is released, but the highlight will likely be the release of the US core PCE deflator (consensus expects a small rise in the YoY reading).

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Building Permits MoM	Feb		0.2	10:45
NZ New Zealand To Sell NZD150 Mln 3.5% 2033 Bonds				14:05
GE Unemployment Claims Rate SA	Mar	5.3	5.4	20:55
UK GDP YoY	4Q F	1.4	1.4	21:30
GE CPI EU Harmonized YoY	Mar P	1.6	1.2	01:00
CA GDP YoY	Jan	2.9	3.3	01:30
US PCE Core YoY	Feb	1.59	1.5	01:30
US Chicago Purchasing Manager	Mar	62	61.9	02:45
US U. of Mich. Sentiment	Mar F	102	102	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	Net Day		
NZD	0.7214	-0.8	0.7213	0.7273	CHF	0.9559	+1.0	S&P 500	2,613	+0.0	10.8	Oil (Brent)	69.24	-1.1
AUD	0.7668	-0.1	0.7654	0.7702	SEK	8.340	+1.3	Dow	23,998	+0.5	15.9	Oil (WTI)	64.19	-1.4
EUR	1.2316	-0.7	1.2317	1.2421	NOK	7.866	+1.9	Nasdaq	7,009	-0.1	19.3	Gold	1330.2	-1.3
GBP	1.4083	-0.5	1.4086	1.4200	HKD	7.848	+0.0	Stoxx 50	3,331	+0.4	-3.9	HRC steel	845.0	-2.1
JPY	106.86	+1.4	105.43	106.82	CNY	6.298	+0.2	FTSE	7,045	+0.6	-4.1	CRB	194.1	-0.7
CAD	1.2907	+0.2			SGD	1.311	+0.1	DAX	11,941	-0.3	-1.7	Wheat Chic.	463.8	-0.6
NZD/AUD	0.9408	-0.6			IDR	13,764	+0.2	CAC 40	5,130	-0.8	1.7	Sugar	12.21	-2.7
NZD/EUR	0.5857	-0.1			THB	31.30	+0.2	Nikkei	21,031	-1.3	9.4	Cotton	80.89	-1.5
NZD/GBP	0.5122	-0.2			KRW	1,071	+0.0	Shanghai	3,122	-1.4	-3.7	Coffee	117.8	-1.0
NZD/JPY	77.09	+0.6			TWD	29.16	+0.1	ASX 200	5,789	-0.7	-1.4	WM powder	3160.0	+0.0
NZD/CAD	0.9311	-0.6			PHP	52.35	-0.1	NZX 50	8,388	-1.4	17.6	Australian Futures		
NZ TWI	74.47	-0.5										3 year bond	97.875	0.00
												10 year bond	97.40	0.02
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	Last		
USD	1.75	2.30	2.57	2.80	USD	2.78	0.01	NZGB 6 05/15/21	2.01	-0.04	1 year	2.07	-0.02	
AUD	1.50	2.03	2.05	2.82	AUD	2.59	-0.07	NZGB 5 1/2 04/15/23	2.28	-0.06	2 year	2.22	-0.03	
NZD	1.75	1.95	2.22	3.06	NZD	2.72	-0.07	NZGB 2 3/4 04/15/25	2.52	-0.06	5 year	2.61	-0.06	
EUR	0.00	0.06	-0.16	0.97	GER	0.50	-0.00	NZGB 4 1/2 04/15/27	2.72	-0.07	7 year	2.83	-0.07	
GBP	0.50	0.68	1.11	1.51	GBP	1.37	-0.06	NZGB 3 04/20/29	2.93	-0.04	10 year	3.06	-0.08	
JPY	-0.06	-0.03	0.05	0.25	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.12	-0.03	15 year	3.30	-0.08	
CAD	1.25	1.17	2.20	2.53	CAD	2.12	-0.02	NZGB 2 3/4 04/15/37	3.32	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: NZT 06:51

Source: Bloomberg

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