

30 April 2018



Events Round-Up

NZ: ANZ consumer confidence, Apr: 120.5 vs. 128.0 prev.

NZ: Trade balance (\$m), Mar: -86 vs. 275 exp.

JN: BOJ 10-Yr yield target (%), Apr: 0 vs. 0 exp.

GE: Unemployment rate (%), Apr: 5.3 vs. 5.3 exp.

EC: Economic confidence, Apr: 112.7 vs. 112.0 exp.

UK: GDP (q/q%), Q1: 0.1 vs. 0.3 exp.

US: Employment cost index, Q1: 0.8 vs. 0.7 exp.

US: GDP (ann. q/q%), Q1: 2.3 vs. 2.0 exp.

Good Morning

On a historic day, market movements were remarkably modest. The USD lost a little ground after its strength earlier in the week, while the only real standout performer was a weaker GBP after growth missed expectations.

On Friday Kim Jong Un became the first North Korean leader to step foot into South Korean territory since the end of the Korean War in 1953 in a heartfelt meeting with South Korea President Moon Jae-in. The historic meeting was a bit of a tear jerker, with Kim calling for "a new history of peace and prosperity". The two leaders agreed to move towards formally ending the war and pursue "complete denuclearisation" of the Korean peninsula. While emotionally it was a moving experience, there was little impact on the market given that a risk premium on North Korean risks was priced out some time ago.

On Friday, the only market movement of note was a much weaker GBP. UK GDP rose by just 0.1% q/q in the March quarter, a soft result that followed recent dovish comments by BoE Carney and thereby slashed market expectations of a rate hike next month from around a 60% chance to 20% and sent GBP 1% lower to 1.3780. While poor weather might have been a factor, the data also raised the possibility that underlying growth was weak due to Brexit uncertainty.

US Q1 GDP growth was slightly stronger than expected but had a soft underbelly, including inventory building and the weakest consumer spending since 2013. The employment cost index was stronger than expected, taking wage inflation to its highest rate in a decade. The data marked a turning point for the USD, which weakened about 0.5% through to the close after its upward trend through much of the week. In a nod to the stronger wage data, there was a slight flattening of the yield curve, with

the 2-year rate steady while the 10-year rate drifted down by 2½ bps for the session to 2.96%. CFTC data showed record net short positioning for the US 10-year futures contract through to Tuesday, ahead of the move up through the 3% mark and no doubt lop-sided positioning has been a factor in the subsequent retreat in yields.

The only other noteworthy event on Friday was the BoJ policy announcement. The BoJ said that inflation risks are skewed to the downside and "continue to warrant careful attention." In a reality check, the central bank removed its previous wording that it expected to reach its 2% inflation target around fiscal 2019. For some time the market has been sceptical of the BoJ ever meeting its policy target and thus the yen was largely unmoved as a result.

The NZD traded in a tight range for much of the day, ignoring weaker consumer confidence and a worse-than-expected trade balance, before the USD's selloff after midnight saw the NZD nudge on up towards the 0.7090 mark. There wasn't much action on the crosses apart from GBP's weakness seeing NZD/GBP up 1.3% to 0.5140, back to where it was earlier in the week. NZ rates followed US rates (from the previous session) lower, with longer term rates down in the order of 4-5bps.

In the day ahead, the ANZ NZ business outlook survey and China PMI data hit the screens early this afternoon, ahead of US spending, income and PCE deflator data tonight. A move up to the Fed's 2% target for the core PCE deflator wouldn't surprise, with large year's series of weak months about to drop out of the annual calculation. Indeed, over coming months we are likely to see an upwards push through the 2% mark. This shouldn't surprise the market and simply adds to the case for further Fed rate hikes, particularly with labour market data still tightening.

[.jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

Coming Up

	Period	Cons.	Prev.	NZT
NZ ANZ activity outlook	Apr		21.8	13:00
CH Non-manufacturing PMI	Apr	54.5	54.6	13:00
CH Manufacturing PMI	Apr	51.3	51.5	13:00
GE CPI EU harmonised (y/y)	Apr	1.5	1.5	00:00
US Personal income (m/m%)	Mar	0.4	0.4	00:30
US Personal spending (m/m%)	Mar	0.4	0.2	00:30
US PCE deflator (y/y%)	Mar	2.0	1.8	00:30
US Core PCE deflator (y/y%)	Mar	1.9	1.6	00:30
US Chicago PMI	Apr	58.0	57.4	01:45
US Pending home sales (m/m%)	Mar	0.5	3.1	02:00

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	0.7085	+0.3	0.7040	0.7091	CHF	0.9877	-0.1	S&P 500	2,670	+0.1	12.0	Oil (Brent)	74.64	-0.1
AUD	0.7581	+0.4	0.7532	0.7582	SEK	8.659	-0.1	Dow	24,311	-0.0	16.1	Oil (WTI)	68.10	-0.1
EUR	1.2130	+0.2	1.2056	1.2123	NOK	7.962	-0.4	Nasdaq	7,120	+0.0	17.7	Gold	1323.4	+0.4
GBP	1.3782	-1.0	1.3747	1.3934	HKD	7.848	+0.0	Stoxx 50	3,519	+0.4	-1.1	HRC steel	860.0	+0.5
JPY	109.05	-0.2	108.98	109.54	CNY	6.332	-0.1	FTSE	7,502	+1.1	4.1	CRB	201.4	+0.1
CAD	1.2828	-0.3			SGD	1.324	-0.3	DAX	12,581	+0.6	1.1	Wheat Chic.	498.5	+1.8
NZD/AUD	0.9346	-0.0			IDR	13,893	+0.0	CAC 40	5,483	+0.5	4.1	Sugar	11.22	+2.3
NZD/EUR	0.5841	+0.1			THB	31.52	-0.3	Nikkei	22,468	+0.7	17.0	Cotton	85.33	+0.4
NZD/GBP	0.5141	+1.3			KRW	1,077	-0.4	Shanghai	3,082	+0.2	-2.3	Coffee	122.4	+2.3
NZD/JPY	77.26	+0.1			TWD	29.63	-0.3	ASX 200	5,954	+0.7	0.5	WMI powder	3395.0	+1.6
NZD/CAD	0.9089	-0.0			PHP	51.91	-0.4	NZX 50	8,370	+1.1	13.4	Australian Futures		
NZ TWI	73.72	+0.2										3 year bond	97.75	0.02
												10 year bond	97.19	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	1.75	2.36	2.74	2.99	USD	2.96	-0.02	NZGB 6 05/15/21	2.09	-0.03	1 year	2.12	-0.02	
AUD	1.50	2.05	2.14	2.98	AUD	2.82	-0.04	NZGB 5 1/2 04/15/23	2.41	-0.03	2 year	2.29	-0.02	
NZD	1.75	2.03	2.28	3.25	NZD	2.89	-0.04	NZGB 2 3/4 04/15/25	2.69	-0.03	5 year	2.77	-0.04	
EUR	0.00	0.06	-0.14	1.00	GER	0.57	-0.02	NZGB 4 1/2 04/15/27	2.89	-0.04	7 year	3.01	-0.05	
GBP	0.50	0.76	1.07	1.58	GBP	1.45	-0.06	NZGB 3 04/20/29	3.07	-0.04	10 year	3.25	-0.05	
JPY	-0.07	-0.03	0.05	0.26	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.27	-0.04	15 year	3.52	-0.05	
CAD	1.25	1.17	2.25	2.69	CAD	2.32	-0.03	NZGB 2 3/4 04/15/37	3.45	-0.05				

* 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

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

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.