

30 January 2018



## Events Round-Up

US: Personal Income (m/m%), Dec: 0.4 vs. 0.3 exp.

US: Personal Spending (m/m%), Dec: 0.4 vs. 0.4 exp.

US: Core PCE deflator (y/y%), Dec: 1.5 vs. 1.5 exp.

## Good Morning

Markets are trading a different pattern today than we've been used to, with the USD stronger, weaker equity markets and higher global bond rates, led by the long end.

Global bond rates are higher across the board, with the US 10-year Treasury yield up 4bps from the weekend close to 2.70% and poking its head above 2.725%, the highest level since April 2014. The selling pressure began early afternoon NZ time and continued overnight. German yields are notably higher as well, with the 10-year rate up 7bps to 0.69% after earlier reaching 0.70%, its highest level since September 2015. Germany's 5-year bond yield broke above zero for the first time in over two years.

There was no obvious catalyst for the move, but a number of factors can be pointed at. The general rise in long-term bond yields broadly matches more conviction in Fed rate hikes through to the end of the year, with many investors wondering whether the Fed will actually end up delivering more than the 3 hikes assumed in the FOMC's projection. In prior years, the market has been sceptical of higher policy rate projections. A robust growth backdrop and risk of higher inflation support that view. Month-end flows might also be a factor. Technical factors can also explain the move, with previous resistance levels now clearly broken.

Some weekend comments by the Dutch central bank Governor Knot might have added to the negative tone in bond markets. He said that the ECB's asset purchase programme should end "as soon as possible", with QE easing "...done what could realistically be expected of it". It looks like Bloomberg reporters rang a number of ECB officials after those comments, as the newswire reported that ECB policy-makers, even the more hawkish members, endorse a tapering of the current asset purchase programme. This would mean that the €30bn per month asset purchases don't end in September but we could see reduced buying in the December quarter before the

programme ends. Clearly Governor Knot's views, while entirely reasonable in our view, sit in the minority.

For a change, the USD is on a higher trajectory, rising against all the majors, with the key USD indices up in the order of 0.4-0.5%. While some report that higher US Treasury yields have supported the dollar, this doesn't explain the 0.6% fall in EUR/USD to 1.2360 as European rates have lifted by more. A more likely explanation is that selling pressure in the USD has been exhausted for now. Speculative positioning is very long in EUR and GBP. Reports of more infighting in the UK Conservative party and calls for a leadership challenge for May haven't helped GBP, which trades down 0.8% to 1.4050.

With the USD in the driving seat, the NZD is weaker, closing in on 0.7300, which also happens to be the level of our short-term fair value estimate. AUD is back below 0.81. Relative to the weekend close, the NZD is fairly flat on the crosses, apart from a slightly more notable fall in NZD/AUD to around 0.9030.

Yesterday, the local rates curve steepened, driven by global forces. The 10-year swap rate rose by 3bps to 3.25%, with a further nudge up likely from the open. The 2-year rate remained well anchored, rising by less than 1bp to 2.18%.

There are a few bits and pieces on the economic calendar today. NZ trade data and NAB's business survey in Australia shouldn't be market moving. More interest lies in euro area GDP data and Germany CPI data tonight. GBP could see some action tonight as the BoE's Carney faces lawmakers.

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## Coming Up

	Period	Cons.	Prev.	NZT
NZ Trade balance (\$m)	Dec	-125	-1193	10:45
JN Household spending (y/y%)	Dec	1.5	1.7	12:30
AU NAB business conditions	Dec		12	13:30
EC Economic confidence	Jan	116.2	116.0	23:00
EC GDP (q/q%)	Q4	0.6	0.6	23:00
GE CPI EU harmonised (y/y%)	Jan	1.6	1.6	02:00
US Conf. Board cons. confid.	Jan	123.0	122.1	04:00
UK BoE's Carney speaks before lawmakers				04:30

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	0.7308	-0.6	0.7302	0.7343	CHF	0.9374	+0.5			S&P 500	2,863	-0.3	24.8	Oil (Brent)	69.40	-1.6
AUD	0.8090	-0.2	0.8074	0.8106	SEK	7.904	+0.5			Dow	26,509	-0.4	31.9	Oil (WTI)	65.48	-1.0
EUR	1.2361	-0.5	1.2337	1.2429	NOK	7.724	+0.4			Nasdaq	7,483	-0.3	32.2	Gold	1339.6	-0.9
GBP	1.4056	-0.7	1.4026	1.4148	HKD	7.817	-0.0			Stoxx 50	3,643	-0.1	10.3	HRC steel	679.0	+0.0
JPY	109.14	+0.5	108.63	109.20	CNY	6.341	+0.2			FTSE	7,672	+0.1	6.8	CRB	199.3	-0.6
CAD	1.2339	+0.3			SGD	1.312	+0.3			DAX	13,324	-0.1	12.8	Wheat Chic.	459.8	+1.3
NZD/AUD	0.9033	-0.4			IDR	13,366	+0.5			CAC 40	5,522	+0.3	14.1	Sugar	13.58	+1.6
NZD/EUR	0.5912	-0.1			THB	31.46	+0.4			Nikkei	23,629	-0.0	22.0	Cotton	78.43	-2.5
NZD/GBP	0.5199	+0.0			KRW	1,066	+0.1			Shanghai	3,523	-1.0	11.5	Coffee	125.1	-0.1
NZD/JPY	79.76	-0.1			TWD	29.16	+0.2			ASX 200	6,075	+0.4	7.3	WMI powder	3150.0	+0.0
NZD/CAD	0.9017	-0.3			PHP	51.22	+0.6			NZX 50	8,328	+0.2	17.5	<b>Australian Futures</b>		
NZ TWI	74.68	-0.3												3 year bond	97.72	0.00
														10 year bond	97.13	-0.01

  

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	1.77	2.32	2.73	USD	2.70	0.04	NZGB 3 04/15/20	1.95	0.01	1 year	1.97	-0.01
AUD	1.50	1.78	2.11	3.02	AUD	2.85	0.01	NZGB 6 05/15/21	2.15	0.00	2 year	2.18	0.01
NZD	1.75	1.88	2.18	3.26	NZD	2.93	0.02	NZGB 5 1/2 04/15/23	2.43	0.01	5 year	2.72	0.02
EUR	0.00	0.06	-0.12	1.07	GER	0.69	0.07	NZGB 2 3/4 04/15/25	2.70	0.02	7 year	2.98	0.02
GBP	0.50	0.53	0.93	1.53	GBP	1.45	0.01	NZGB 4 1/2 04/15/27	2.90	0.02	10 year	3.25	0.03
JPY	-0.04	-0.04	0.06	0.30	JPY	0.09	0.01	NZGB 3 1/2 04/14/33	3.24	0.03	15 year	3.50	0.03
CAD	1.25	1.17	2.19	2.63	CAD	2.29	0.03	NZGB 2 3/4 04/15/37	3.39	0.03			

\* 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 06:42

Source: Bloomberg

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