

31 March 2017

Events Round-Up

EC: Economic Confidence, Mar: 107.9 vs. 108.3 exp.
GE: CPI EU Harmonised (y/y%), Mar P: 1.5 vs. 1.9 exp.
US: GDP (ann. q/q%), 4Q third est.: 2.1 vs. 2.0
US: Initial Jobless Claims, wk to Mar 25: 258 vs. 247 exp.

Good Morning

The USD is showing further signs of consolidation after its mid-month tumble, rising by about 0.3% on the key indices, while equity markets and US Treasury yields are slightly higher.

EUR remains under pressure as investors lose confidence that the ECB is about to change its accommodative policy stance anytime soon. Following yesterday's Reuters report that unnamed officials said the market had over-interpreted its intent to withdraw monetary stimulus, inflation data in Germany and Spain were much weaker than expected. Germany's annual CPI inflation fell to 1.5% in February from 2.2%, while in Spain inflation dropped from 3.0% to 2.1%. The ECB's Governing Council member Liikanen commented that the euro area is still in need of "a very substantial degree of monetary accommodation for underlying inflation pressures to build up and support inflation in the medium term."

EUR trades this morning below the 1.07 mark, after trading at its highs for the year above 1.09 just three days ago. Euro area inflation data tonight are expected to show headline inflation dipping from 2.0% to 1.8% and core inflation retreating to 0.8% from 0.9%, data which are consistent with the view that the ECB will be in no hurry to remove monetary stimulus.

The third estimate of Q4 US GDP was revised a touch higher to an annualised 2.1%, driven by an upward revision of private consumption to a healthy 3.5%. Timelier February data in the form of personal income and spending are released tonight, along with the latest PCE deflators. Core PCE inflation likely remained stuck at 1.7% yoy. Any upside surprise here would help fuel expectations for another Fed hike, perhaps as soon as June, and help boost the USD.

There was a temporary blip down in the USD as CNBC reported that the Trump administration was assessing the scope of its power to penalise countries whose currencies it says are undervalued. President Trump's economic

team is looking at alternative strategies to crack down on what he calls unfair trade. The market is nervous about a trade war, with the US at the centre of it, but that news report was quickly brushed aside.

Some broadly-based USD strength sees the NZD just holding above the 0.70 mark, near the bottom of the 1-cent range it has traded within the past couple of weeks. Today sees the release of the ANZ business outlook survey, which is expected to show decent levels of confidence and another tick up in inflation expectations. The NZD has slightly underperformed the AUD which sees NZD/AUD probing the 0.9150 level. The soft EUR sees NZD/EUR up to 0.6550.

Triggering Brexit has done GBP no harm, as it is one of the few currencies to have made ground against the USD, and trades at 1.2475. PM May's Brexit letter noted that the UK's cooperation on security matters could be tied to any free trade deal. This is one of the few bargaining chips the UK has and this has got the attention of the media and the market.

Some USD recovery and higher US Treasury rates see USD/JPY nudging up towards the 111.50 mark, well up from the 110.20 low a couple of days ago. NZD/JPY is steady around 78.

The higher US Treasury curve has gone against the grain of slightly lower UK and German rates. Germany's 10 year rate is down to 0.33%, supported by talk of the ECB maintaining a highly accommodative stance and the weaker inflation figures noted earlier.

The US 10-year rate is up 3bps to 2.41%, with rates grinding higher after that GDP release and little other news. The curve has steepened slightly, with the 2-year rate up 1bp to 1.28%.

With little NZ news this week, the local rates market has been driven by global forces. There was a modest downside bias to rates, with the 2-year swap rate down 1.5% to 2.32% and the 10-year rate down 2.5bps to 3.285%. The short end of the curve remains well anchored as the OCR looks to be on hold all year. Today's ANZ survey is unlikely to change that view and we still keenly await CPI data in three weeks.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Building permits (m/m%)	Feb		0.8	10:45
UK GfK Consumer Confidence	Mar	-7	-6	12:01
JN Household spending (y/y%)	Feb	-1.7	-1.2	12:30
JN CPI (y/y%)	Feb	0.2	0.4	12:30
JN CPI ex fresh food, energy (y/y%)	Feb	0.1	0.2	12:30
JN Industrial production (y/y%)	Feb P	3.9	3.7	12:50
NZ ANZ Activity Outlook	Mar		37.2	13:00
NZ ANZ Business Confidence	Mar		16.6	13:00
CH Manufacturing PMI	Mar	51.7	51.6	14:00
CH Non-manufacturing PMI	Mar		54.2	14:00
UK GDP (q/q%)	4Q F	0.7	0.7	21:30
EC CPI core (y/y%)	Mar A	0.8	0.9	22:00
US Personal income (m/m%)	Feb	0.4	0.4	01:30
US Personal spending (m/m%)	Feb	0.2	0.2	01:30
US PCE deflator (y/y%)	Feb	2.1	1.9	01:30
US Core PCE deflator (y/y%)	Feb	1.7	1.7	01:30
US Chicago PMI	Mar	56.9	57.4	02:45
US U. of Mich. cons. sent.	Mar F	97.6	97.6	03:00

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	0.7008	-0.4	0.7004	0.7035	CHF	0.9995	+0.3	S&P 500	2,368	+0.3	14.7	Oil (Brent)	52.76	+0.7
AUD	0.7657	-0.2	0.7651	0.7680	SEK	8.928	+0.7	Dow	20,722	+0.3	17.0	Oil (WTI)	50.27	+1.6
EUR	1.0693	-0.7	1.0685	1.0768	NOK	8.562	+0.7	Nasdaq	5,910	+0.2	21.4	Gold	1244.6	-0.8
GBP	1.2478	+0.4	1.2403	1.2524	HKD	7.771	+0.0	Stoxx 50	3,482	+0.2	14.4	HRC steel	630.0	-0.8
JPY	111.45	+0.4	110.94	111.54	CNY	6.889	-0.0	FTSE	7,370	-0.1	18.8	CRB	185.5	+0.2
CAD	1.3303	-0.2			SGD	1.396	+0.1	DAX	12,256	+0.4	22.0	Wheat Chic.	433.5	-1.1
NZD/AUD	0.9152	-0.2			IDR	13,316	+0.0	CAC 40	5,090	+0.2	14.5	Sugar	16.81	-1.8
NZD/EUR	0.6554	+0.3			THB	34.44	+0.1	Nikkei	19,063	-0.8	13.8	Cotton	76.20	+0.1
NZD/GBP	0.5616	-0.7			KRW	1,117	+0.3	Shanghai	3,210	-1.0	6.9	Coffee	139.3	+0.0
NZD/JPY	78.10	+0.0			TWD	30.31	+0.2	ASX 200	5,896	+0.4	16.0	WM powder	2820.0	+0.2
NZ TWI	76.22	-0.2			PHP	50.16	+0.0	NZX 50	7,169	+0.5	6.2	Australian Futures		
											3 year bond	98.05	-0.01	
											10 year bond	97.27	0.00	
Interest Rates						NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last				
USD	1.00	1.15	1.63	2.40	USD	2.41	0.03	NZGB 3 04/15/20	2.330	-0.01	1 year	2.075	-0.00	
AUD	1.50	1.80	1.93	2.96	AUD	2.69	-0.03	NZGB 6 05/15/21	2.470	-0.02	2 year	2.320	-0.02	
NZD	1.75	1.99	2.33	3.44	NZD	3.19	-0.04	NZGB 5 1/2 04/15/23	2.775	-0.04	5 year	2.920	-0.02	
EUR	0.00	0.06	-0.13	0.76	GER	0.33	-0.01	NZGB 2 3/4 04/15/25	3.080	-0.04	7 year	3.185	-0.02	
GBP	0.25	0.34	0.62	1.18	GBP	1.12	-0.03	NZGB 4 1/2 04/15/27	3.185	-0.04	10 year	3.435	-0.02	
JPY	-0.04	0.02	0.05	0.26	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.540	-0.04	15 year	3.745	-0.02	
CAD	0.50	1.17	1.10	1.89	CAD	1.62	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 06:59

Source: Bloomberg

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