

9 January 2018



Events Round-Up

EC: Retail Sales (y/y%), Nov: 2.8% vs. 2.4% exp.

EC: Economic Confidence, Dec: 116 vs. 114.8 prev.

Good Morning

Markets were subdued overnight, with only small moves seen across asset classes. US stocks consolidated near record levels amid continued low volatility while the USD increased a little overnight. The NZD outperformed.

With no major data overnight, there wasn't to move markets. Following last week's 2.6% rise, the S&P 500 was flat as the market awaited the start of earnings season in the US which kicks off this week. Risk sentiment still remains very strong amid strong global growth, continued modest inflation and low volatility.

The 10 year US Treasury yield continues to hover a little below 2.50%, a level it hasn't breached since March last year. The market prices almost an 80% chance the Fed will raise rates at the March meeting and a bit more than 2 hikes in total in 2018. A number of Fed speakers are scheduled to speak this week, including Bostic, Williams and Rosengren this morning. However, with the market already close to fully-priced for the next rate rise, it doesn't seem likely there will be much market impact. Williams said on the weekend that "something like three rate hikes makes sense." Core CPI, which is released on Friday, should be the major focus for US rates this week.

The USD strengthened overnight, although as with other markets, the moves were reasonably muted. The NZD was the only currency to strength against the USD overnight, albeit marginally, and it sits near 0.72. The NZD has been supported by the strong global growth backdrop and high risk appetite this year. Market positioning may also have played a role in the NZD strength; the latest CFTC data released last week showed near-record

speculative shorts in NZD futures.

The EUR fell below 1.20 overnight despite more positive economic data from the Eurozone. European Economic confidence rose again, to its highest level since 2000 while retail sales also surprised on the upside. Meanwhile, Bundesbank President Wiedmann reiterated that a clear end date to the ECB's QE program is justifiable, although his hawkish comments were always unlikely to take the market by surprise. The EUR's failure to push above 1.21 may also be partly explained by market positioning. CFTC positioning data showed record net long positions in EUR futures last week. NZD/EUR hit 0.60 overnight, its highest level since early November.

The GBP is also marginally weaker overnight. UK PM Theresa May announced her cabinet reshuffle overnight, although all the senior minister remained in place. The Telegraph reports that May is considering created a "minister for no deal" cabinet role, which would be responsible for drawing up contingency plans if the UK leaves the EU without a trade deal. Despite this talk, we still expect a transitional deal to be agreed between the UK and the EU this year and for NZD/GBP to move below 0.50 at some point. It's currently sitting just below 0.53.

In terms of the day ahead, we have mostly second-tier economic data while the Fed's Bostic, Williams and Rosengren will all be speaking. The major focus will be US earnings reports and CPI later in the week.

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Coming Up

		Period	Cons.	Prev.	NZT
US	Fed's Williams and Rosengren speak				07:35 & 10:00
AU	Building Approvals YoY	Nov	4.6	18.4	13:30
GE	Industrial Production WDA YoY	Nov	3.9	2.7	20:00
EC	Unemployment Rate	Nov	8.7	8.8	23:00
US	NFIB Small Business Optimism	Dec	107.5	107.5	00:00
US	JOLTS Job Openings	Nov	6025	5996	04:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)				Other FX			Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7179	+0.1	0.7156	0.7184	CHF	0.9766	+0.2		S&P 500	2,743	+0.0	20.5	Oil (Brent)	67.60	-0.1
AUD	0.7839	-0.3	0.7827	0.7852	SEK	8.204	+0.6		Dow	25,280	-0.1	26.6	Oil (WTI)	61.47	+0.0
EUR	1.1975	-0.4	1.1959	1.2033	NOK	8.076	+0.3		Nasdaq	7,152	+0.2	29.5	Gold	1318.5	-0.3
GBP	1.3559	-0.1	1.3523	1.3585	HKD	7.821	+0.0		Stoxx 50	3,616	+0.2	8.9	HRC steel	663.0	+0.2
JPY	113.09	+0.0	112.88	113.39	CNY	6.500	+0.2		FTSE	7,697	-0.4	6.7	CRB	192.6	-0.4
CAD	1.2423	+0.1			SGD	1.332	+0.4		DAX	13,368	+0.4	15.2	Wheat Chic.	440.3	-0.6
NZD/AUD	0.9158	+0.5			IDR	13,429	+0.1		CAC 40	5,487	+1.1	11.8	Sugar	14.81	-1.9
NZD/EUR	0.5995	+0.7			THB	32.20	+0.0		Nikkei	23,715	+0.9	21.9	Cotton	78.16	+0.2
NZD/GBP	0.5295	+0.2			KRW	1,066	+0.3		Shanghai	3,409	+0.5	7.5	Coffee	125.4	-2.4
NZD/JPY	81.19	+0.1			TWD	29.54	+0.1		ASX 200	6,130	+0.1	5.6	WMI powder	3000.0	+0.3
NZD/CAD	0.8918	+0.1			PHP	50.19	+0.6		NZX 50	8,425	-0.4	20.1	Australian Futures		
NZ TWI	74.90	+0.3											3 year bond	97.88	0.00
													10 year bond	97.35	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	1.70	2.15	2.47	USD	2.48	0.00	NZGB 3 04/15/20	1.95	0.02	1 year	2.00	0.00		
AUD	1.50	1.81	2.00	2.80	AUD	2.65	0.01	NZGB 6 05/15/21	2.12	0.03	2 year	2.18	0.00		
NZD	1.75	1.88	2.18	3.13	NZD	2.81	0.04	NZGB 5 1/2 04/15/23	2.38	0.04	5 year	2.66	0.00		
EUR	0.00	0.06	-0.15	0.88	GER	0.43	-0.01	NZGB 2 3/4 04/15/25	2.63	0.04	7 year	2.89	0.00		
GBP	0.50	0.52	0.81	1.32	GBP	1.24	-0.01	NZGB 4 1/2 04/15/27	2.81	0.04	10 year	3.13	0.00		
JPY	-0.05	-0.03	0.05	0.27	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.12	0.04	15 year	3.37	0.00		
CAD	1.00	1.17	2.15	2.49	CAD	2.17	0.02	NZGB 2 3/4 04/15/37	3.26	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: NZT 07:01

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