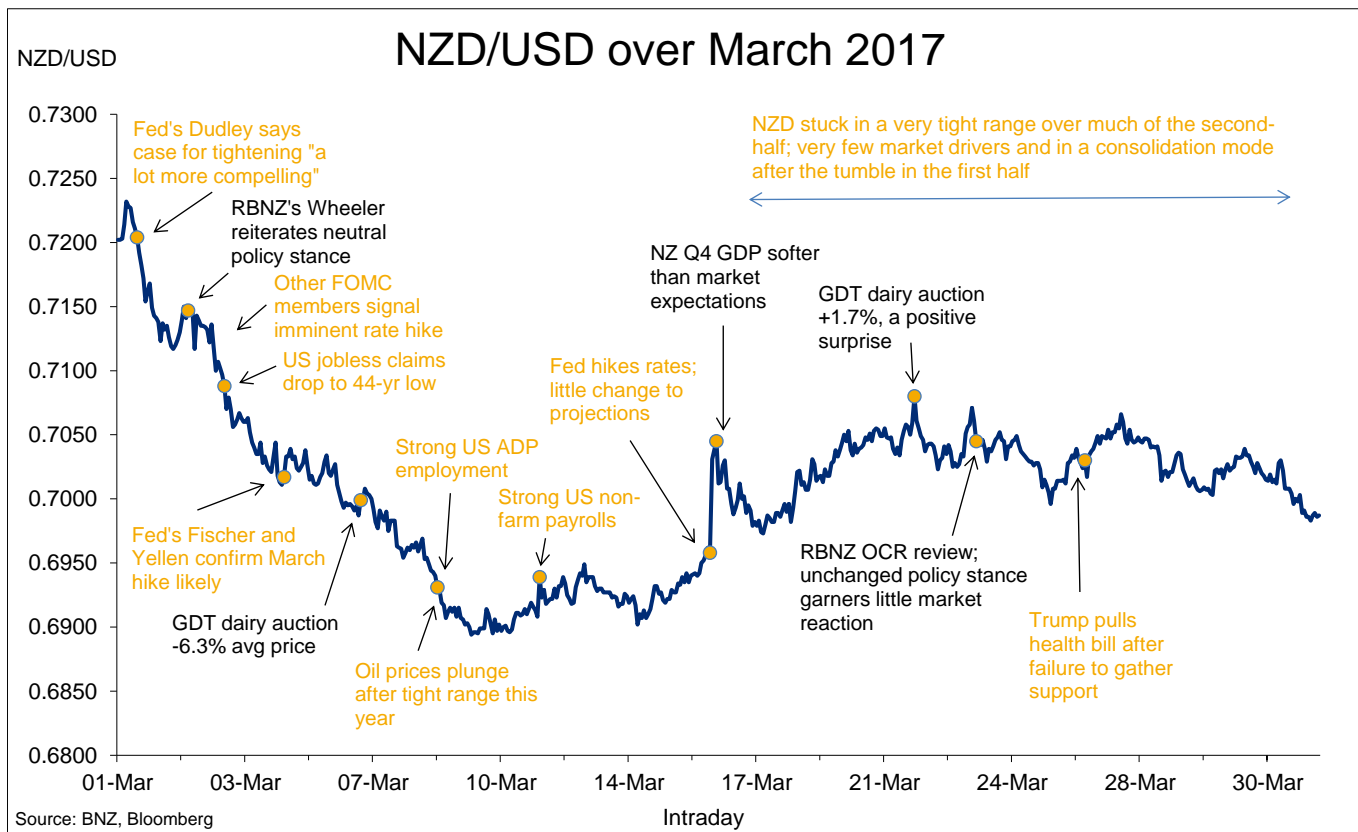


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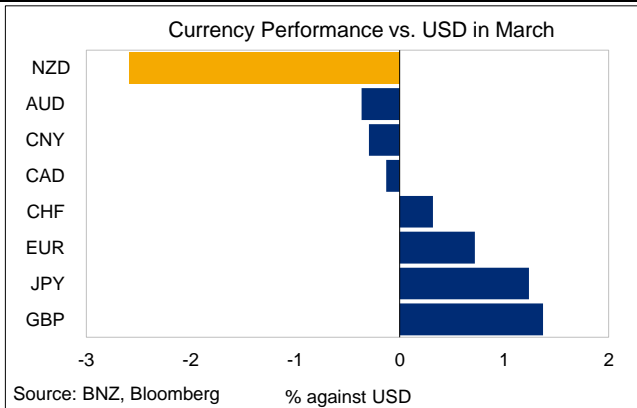
## A Broad-Based NZD Sell-Off in March

- In March, the NZD was down 2-4% on all the major crosses we monitor...
- ...not entirely justified when we consider fundamental forces
- Little change in global interest rates

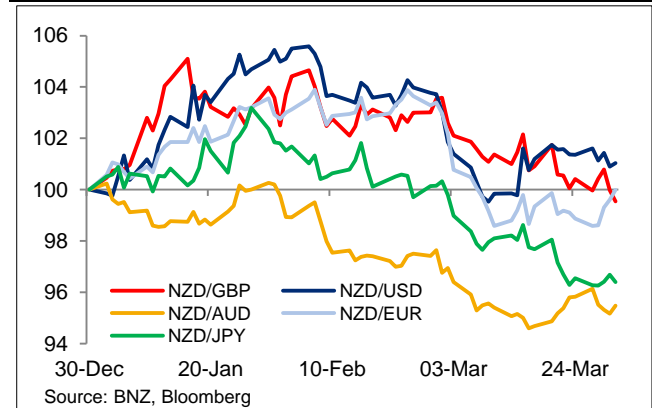


Quick Outlook		March ranges
NZD/USD	Modest upside risk in short-term after falling in March, with NZD tracking below fair-value. High NZ CPI for Q1 might help. But USD likely to be the key driver so policy under Trump will remain a focus. Ultimately we see NZD weaker in 2H.	0.6890 – 0.7195
NZD/AUD	AUD has been relatively bullet-proof over the period where NZD has been hit, which we can't really explain. Fundamentals argue for a stronger cross rate.	0.9075 – 0.9400
NZD/GBP	Brexit negotiations will overhang GBP for some time. Lots of bad news is priced into GBP already, but EU negotiators remain in the box seat. High 0.50s range expected.	0.5575 – 0.5830
NZD/EUR	With political risk reduced, focus returns to the ECB and economic drivers. Downside risk to the cross in 2H but we wonder if recent fall has been overdone a bit for now.	0.6460 – 0.6800
NZD/JPY	NZD looks a little oversold, so could recover near-term. But ultimately this cross is at the whim of risk appetite which is due for a fall. Soft Japan CPI track argues for BoJ policy to remain as easy as ever.	77.50 – 81.50
90-day BB	Flat, with little chance of monetary policy adjustment over coming months.	1.95% - 2.00%

**NZD Weakness in March Stands Out**



**NZD Mixed on a Year-to-Date Basis**



**NZD hit despite high risk appetite**

A key theme for March was the underperformance of the NZD, which is not entirely explainable. It fell on all the key cross rates by around 2-4%. Against the USD it fell by 2½% for the month, hitting fresh lows for the year of just under USD 0.69. This fall was against the grain of its Asia-Pacific peers, with the Asia DXY index up 0.5% and AUD/USD fairly flat. Our risk appetite index was steady at an elevated 75% for the month so that doesn't explain the weakness of the NZD.

**Dairy prices weaker but so too were other commodities**

Weaker commodity prices don't fully explain currency movements either. After a flat performance since the end of November, oil prices tumbled after signs of higher inventories, despite the agreement amongst some major oil producers to curb supply. At one stage prices were down over 12%, before a late month recovery on expectations that the production agreement might be extended limited the damage to more like 6-7%. Iron ore prices were down 12% for the month. In light of these trends, both the AUD and CAD held up well. By contrast, the NZD was negatively impacted by a fall in dairy prices. Dairy prices fell by much less than iron ore, but NZD/AUD still fell nevertheless, probing levels not seen since April last year, reaching as low as AUD 0.9075.

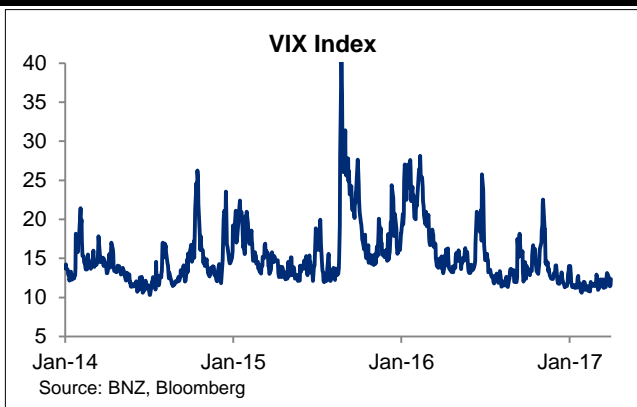
**NZ short rates in a tight range**

In trying to explain NZD movements one can only point to domestic drivers and they aren't entirely convincing either. At the March OCR review, the RBNZ maintained its neutral policy stance, but this was widely expected. Indeed, the 2-year swap rate traded in a narrow 2.28-2.36% range, consistent with little change in views about the path of monetary policy. There was a slight pushing out of expectations of the first rate hike in the next tightening cycle, with the market more convinced of an early-2018 tightening than late-2017.

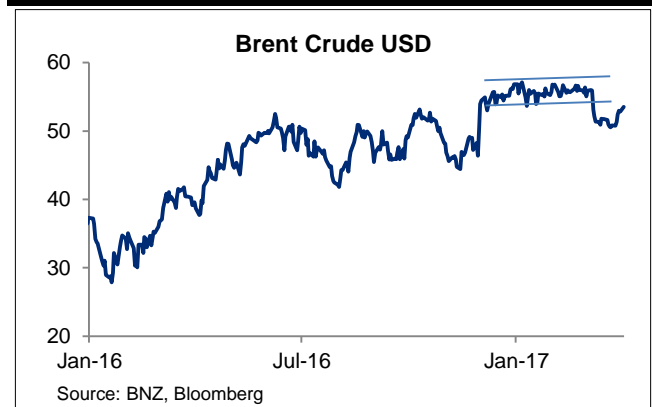
**NZ economic momentum weaker than global trend**

The economic dataflow can partly explain NZD weakness. Citigroup's economic surprise indices showed global economic releases still tending to surprise on the upside, with the G10 aggregate hovering around a historically high level. At the same time, the NZ version of the index has been falling and moved further into negative territory during March. NZ GDP for Q4 undershot market expectations while housing market indicators have also been underwhelming recently. So fading NZ economic momentum at a time of improving global economic indicators can explain some of the broadly-based fall in the NZD, although we'd note that a lower Australian economic surprise index had little impact on the AUD.

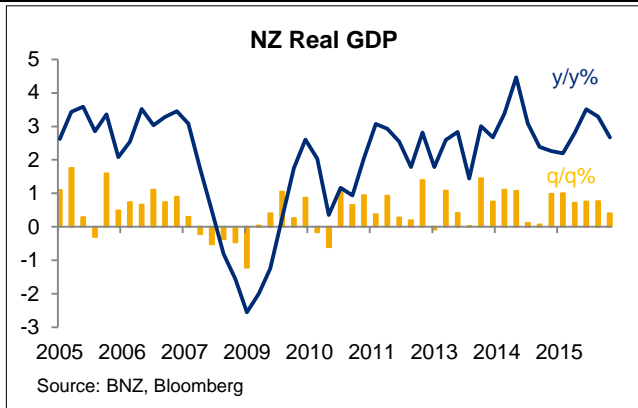
**VIX or "Fear" Index Remains at a Risk-Loving Level**



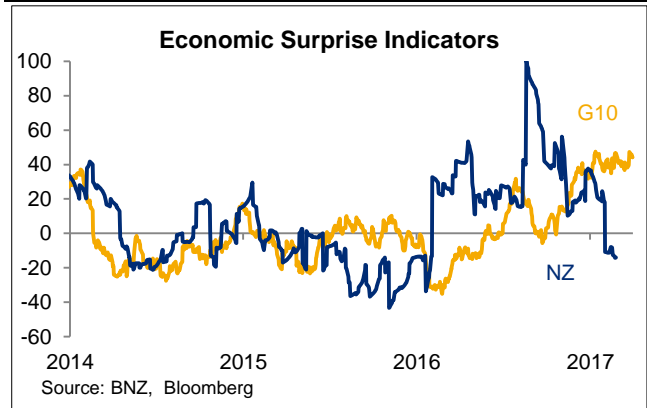
**Oil Breaks to the Downside after Tight Range**



**NZ Growth Momentum Faded Late 2016**



**NZ Against the Grain of Positive Economic Data**



**Fed guides to a March rate hike**

On the global scene, much of the focus early in the month was the Fed's guidance towards a March tightening. A series of Fed speakers delivered a consistent message that implied the Fed was ready to hike again at its March meeting. This helped put upward pressure on the various USD indices early in the month. However, the well-anticipated 25bp rate hike was delivered, the third for this cycle, alongside a set of forecasts that were largely unchanged, with no particular concern about the inflation outlook. This saw the USD give up its gains, before a period of consolidation set in.

**Doubts surface over Trump's policy agenda**

Late in the month the USD saw further weakness, with Trump's healthcare bill to unwind Obamacare not proceeding, due to the lack of support within the Republican party. As this bill was supposed to deliver over \$340bn in savings over the next decade to help offset the budget implications of future tax cuts, the market took the view that the prospect for US fiscal stimulus had diminished. Indeed, Trump's failure to pass this bill highlighted the gridlock in Washington and the difficulty that Trump would have in achieving his policy agenda.

**Political risk subsides in euro area**

The USD major currency TWI ended the month down 0.6%. Against the majors (apart from the NZD), the monthly changes in USD cross rates were fairly modest. For much of the month, EUR was on a rising trend. Polls suggested a reduced chance of far-right candidate Marine Le Pen winning the French Presidential election, so political risk overhanging the euro subsided. The ECB left policy unchanged but the market got excited by some speculation that the ECB might look towards raising interest rates ahead of the end of its quantitative easing policy. There were conflicting reports by unnamed sources through the month on this theme, and by month end the euro was on a softer trajectory, as prospects for early guidance on ECB rate hikes faded on some very weak CPI data.

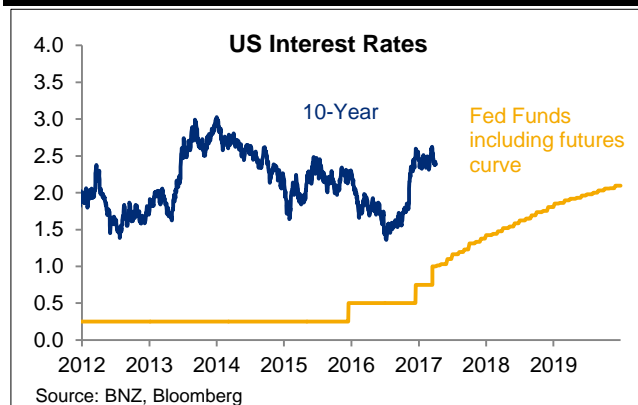
**Tighter policy in China**

The trigger of Brexit late in the month did no harm to GBP. JPY remained highly correlated with US Treasury yields. There wasn't much volatility in CNY, with the PBoC maintaining good control of the currency against the trading basket. Tighter monetary conditions were evident in China, with the authorities implementing measures to cool asset bubbles, including the PBoC allowing money market rates to continue to push higher.

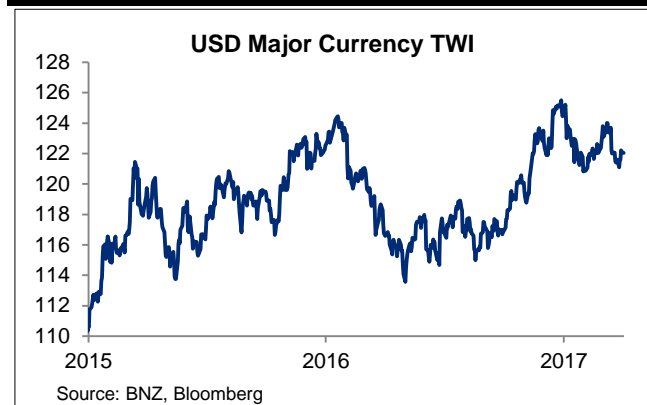
**Global rates little changed**

Global bond rates ended the month little changed. US 10-year rates rose as high as 2.63% ahead of the FOMC meeting, but subsequently fell on the Fed's unchanged forecasts and faced further downward pressure as expectations for US fiscal easing moderated, as noted earlier.

**US Long Rates Steady as Short Rates Rise**



**USD Down in March, Tests Low of Early-2017**



### NZ rates little changed

The short-end of the NZ curve was well-anchored by expectations of steady monetary policy for some time, while the range trading US Treasury market was a key influence on the long end of the curve.

Equity markets continued to push higher. The World Index was up over 1%, with European bourses outperforming. Emerging markets continued to outperform, a reflection of the positive risk-appetite environment and improving global economic momentum.

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Monthly Performance Table							
	end-Mar	end-Feb	Change		end-Mar	end-Feb	Change
<b>Currencies</b>				<b>NZ Rates</b>			
NZD/USD	0.7006	0.7192	-2.6%	OCR	1.75	1.75	0.00
NZD/AUD	0.9185	0.9393	-2.2%	NZ 90day BB	2.01	2.00	0.00
NZD/EUR	0.6577	0.6801	-3.3%	NZ 2yr sw ap	2.32	2.34	-0.02
NZD/GBP	0.5585	0.5809	-3.9%	NZ 5yr sw ap	2.93	2.96	-0.04
NZD/JPY	78.06	81.10	-3.8%	NZ 10yr sw ap	3.45	3.47	-0.02
NZD/CNY	4.819	4.9386	-2.4%	NZ Govt (3/19)	2.14	2.17	-0.03
TWI	76.2	78.5	-2.9%	NZ Govt (5/21)	2.48	2.58	-0.10
AUD/USD	0.7629	0.7657	-0.4%	NZ Govt (4/27)	3.19	3.24	-0.04
EUR/USD	1.0652	1.0576	0.7%	<b>Global 10 year bond rates</b>			
GBP/USD	1.2550	1.2380	1.4%	US	2.39	2.39	0.00
USD/JPY	111.39	112.77	-1.2%	Canada	1.62	1.63	-0.01
USD/CNY	6.89	6.87	0.3%	UK	1.14	1.15	-0.01
USD/CAD	1.3318	1.3301	0.1%	France	0.97	0.89	0.08
USD TWI major	122.11	122.81	-0.6%	Germany	0.33	0.21	0.12
Asia DXY	105.52	104.98	0.5%	Italy	2.32	2.09	0.23
<b>Equity Markets</b>				<b>Commodities (USD)</b>			
MSCI AC Wrld, loc.	1,026	1,014	1.1%	WTI Crude	50.60	54.43	-7.0%
MSCI World, loc.	5,660	5,602	1.0%	Brent Crude	53.53	56.84	-5.8%
MSCI EM, USD	2,041	1,990	2.5%	R/B CRB Index	185.9	190.6	-2.5%
US S&P 500	2,363	2,364	0.0%	Gold spot	1,249	1,248	0.1%
Euro STOXX 600	381.1	370.2	2.9%	Silver spot	18.27	18.31	-0.3%
Germany DAX	12,313	11,834	4.0%	Copper	265.3	270.4	-1.9%
France CAC 40	5,123	4,859	5.4%	Iron Ore	80.39	91.27	-11.9%
UK FTSE 100	7,323	7,263	0.8%	Coking coal	178.00	170.00	4.7%
Aust S&P/ASX 200	5,865	5,712	2.7%	Thermal coal	80.75	83.45	-3.2%
Japan Topix	1,513	1,535	-1.5%	Corn	364.3	373.8	-2.5%
China CSI 300	3,456	3,453	0.1%	Wheat	426.5	443.8	-3.9%
NZX50	7,197	7,167	0.4%	NZX Dairy WMP	2,850	3,020	-5.6%
Volatility: VIX	12.37	12.92	-4.3%	NZX Milk Price 2017	NZD 6	NZD 6.16	-2.6%
<b>3-mth Bill Futures</b>							
NZD Dec-17	97.85	97.78	0.07				
AUD Dec-17	98.17	98.16	0.01				
USD Dec-17	98.45	98.44	0.01				
EUR Dec-17	100.27	100.27	0.00				
GBP Dec-17	99.53	99.59	-0.06				

Source: BNZ, Bloomberg

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