

## Tide turning against Trump?

- Global bond yields and the USD consolidate.
- Lack of spending plans and focus on immigration are giving markets pause-for-thought on Trump.
- New Zealand election date is set for September 23.

**After a busy end to 2016, the first month of 2017 got underway with a general consolidation of the closing trends from the year before, i.e. yields, stocks and the US Dollar moving higher, powered by the promise of increased fiscal stimulus from the new US President.** However, as the month progressed there was a notable absence of firm announcements over the pledged fiscal stimulus. Instead, the new administration focused its early efforts on building a wall along the Mexican border, withdrawing from the TPP trade agreement (which New Zealand is part of) and banning immigration from select countries.

**The lack of spending plans and the seemingly erratic nature of the new President forced markets into a bit of a re-think,** especially after the inauguration on January 20. This saw the Dow move back down and through the 20,000 level that it had broken earlier in the month, while the US Dollar gave back some of its gains (and more in early February) and yields edged back off earlier recent highs. **However, US markets still broadly remain above levels seen prior to November's election.**

**Away from the US, New Zealand's Q4 CPI release at the end of January supported views that the RBNZ's next move is a rate hike. Analysts remain skeptical though of market pricing for a rate hike in 2017,** a view underlined by the Q4 employment data released on February 1. The headline jobless rate moved higher and wage growth was somewhat muted. **In addition, dairy prices stabilised in January, rather than adding to strong gains seen at the end of the year,** with the mix of products offered at auction one of the main drivers.

In contrast to December, January was a somewhat quiet month for New Zealand, with no major geopolitical events, natural events or central bank meeting, while of course much of the country headed for the hills to enjoy summer. **However, the date for the next General election was announced, with September 23 the day to go to the polls,** although the announcement had little impact on financial markets. Interestingly, that is very close to when current RBNZ's Governor Wheeler steps down. The RBNZ announced in early February that current Assistant Governor Grant Spencer will step up for 6 months, to cover the post-election period, until a new Governor can be appointed.

Date	Instrument	31-Jan-17	Month %	Quarter %	Year %	5-Year %
Cash	NZ cash rate	1.75	0.00	-0.25	-0.75	-0.75
	NZ 90-day bank bill	1.99	-0.01	-0.15	-0.71	-0.79
	US 90-day bank bill	1.03	0.04	0.15	0.42	0.49
	NZ - US 90-day bank bill	0.96	-0.05	-0.30	-1.13	-1.28
Fixed Interest	NZ 5-year gov't stock	2.70	0.03	0.66	-0.02	-0.68
	NZ 10-year gov't	3.36	0.02	0.82	0.15	-0.52
	NZ 10-year sw ap	3.63	0.10	0.92	0.18	-0.52
	AUS 10-year gov't	2.73	-0.04	0.41	0.08	-1.13
	US 10-year gov't	2.47	-0.01	0.68	0.50	0.61
Equities	NZ - NZX50 Capital (NZ\$)	3367	2.4%	0.8%	9.7%	70.9%
	AUS - All Ords (A\$)	5675	-0.8%	5.0%	12.2%	31.2%
	JAP - Nikkei (¥)	19041	-0.4%	9.3%	8.7%	116.3%
	UK - FT100 (£)	7099	-0.6%	2.1%	16.7%	24.9%
	US - S&P500 (US\$)	2279	1.8%	7.2%	17.5%	73.6%
	WORLD - MSCI (US\$)	1792	2.4%	6.0%	14.7%	44.4%
	MSCI in NZD (NZ\$)	2459	-2.3%	3.2%	1.9%	63.1%
Exchange Rates	NZD/USD	0.7288	4.7%	2.7%	12.6%	-11.4%
	NZD/AUD	0.9629	0.0%	3.1%	5.4%	24.4%
	NZD/JPY	82.70	2.0%	11.8%	6.3%	31.8%
	NZD/GBP	0.5825	2.6%	-0.2%	29.3%	11.4%
	NZD/EUR	0.6811	2.9%	5.4%	15.0%	9.1%
	NZ TWI	79.64	2.6%	4.2%	12.1%	8.7%
	EUR/USD	1.0700	1.7%	-2.6%	-2.1%	-18.9%

Equity indices are the respective end-of-month closes. Interest rates and exchanges rates are at 5pm NZ.

**Cash**

There was no RBNZ meeting in January, leaving the main action in the US. Even then, there were only the Fed minutes at the start of the month. These minutes underlined the Fed’s stance on rates, i.e. hikes will be gradual and depend on data, although upside risks to inflation were highlighted. The Fed also noted there was some uncertainty to the fiscal outlook, no surprise given the change in administration in the US.

Not only was there no RBNZ meeting in the month, the central bank was pretty quiet right through January. The only activity of note was an announcement that an announcement will be made on the future of Governor Wheeler “shortly”. As it transpired, that announcement came in early February, with the news Governor Wheeler would be stepping down September 26, with Grant Spencer taking the reins for 6 months to cover the post-election period.

Elsewhere there was no change from the Reserve Bank of Australia or the European Central Bank.

**Fixed interest**

Bond yields took a bit of a breather in January, after the frenetic run higher through to the end of 2016. This saw a spot of consolidation around recent highs, rather than a major backwards move. The consolidation was again driven by events offshore, with investors becoming a touch more cautious over Donald Trump, with promised fiscal stimulus still to be announced, never mind actually begin.

In New Zealand, continued speculation over when the RBNZ will start hiking rates was also at play. This was given a lift by the firmer-than-expected Q4 CPI data near the end of the month. At present, markets are pricing for a hike towards the end of 2017. However, many analysts and even traders believe the market has moved too far and yields will back off as 2017 develops.

Australian yields lagged NZ moves a touch, with mixed data keeping RBA rate hike talk firmly some way down the track.

**Equities**

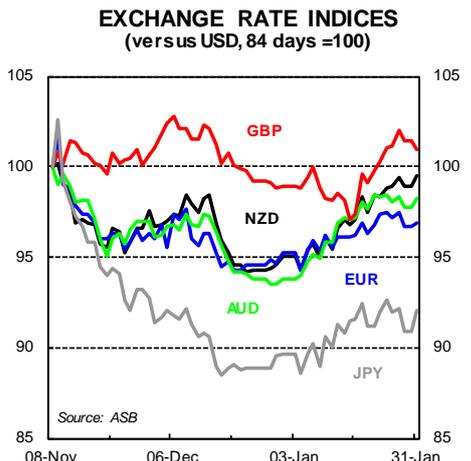
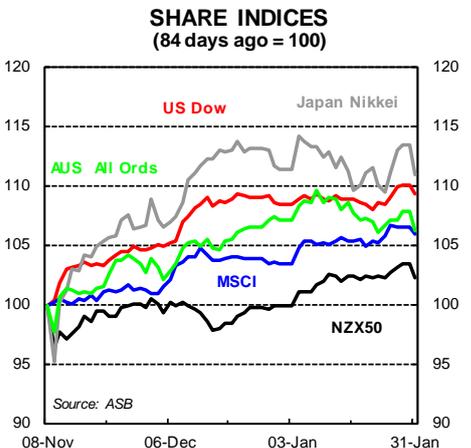
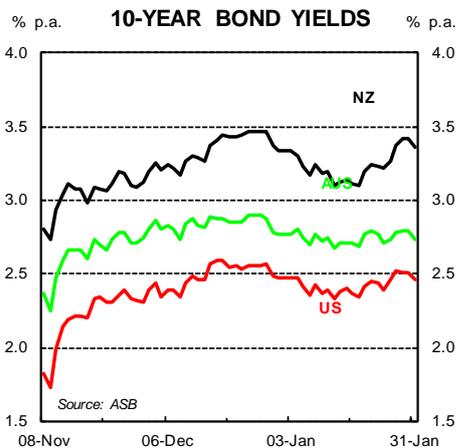
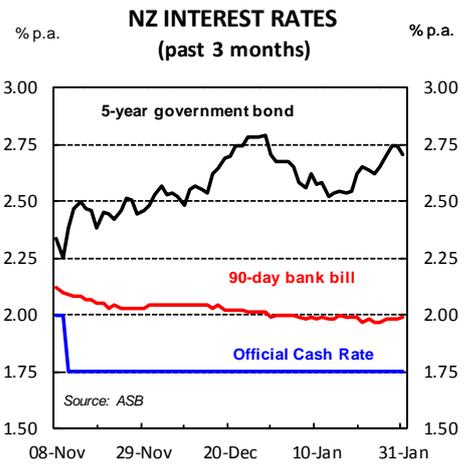
The US Dow Jones finally broke through the 20,000 barrier in January, marking another new all-time record high. The index, and other US indices, continued the run from the back end of 2016, buoyed by Donald Trump’s spending plans. However, the focus on non-spending policies in the early days of the new administration has taken some of the gloss off equities, with the immigration ban from selected countries jolting markets into a reassessment of the outlook and tempering further major stock market gains.

The NZX50 snapped its recent difficult run and climbed a respectable 2.4% in the month. That was enough to take quarterly returns back into positive territory, with the index supported by the general improvement in sentiment around equities. The strong Q3 GDP data, released just a few days before Christmas, also aided.

**Exchange rates**

After a strong end to 2016, the first month of 2017 was mixed for the USD. The currency consolidated its gains over the first few (quiet) weeks in the build up to Donald Trump’s inauguration, with only a small step back on the lack of information about stimulus plans. However, the first few days of the new administration saw the USD step back, with Trump focused on anti-immigration policies, instead of getting economic policies underway, disappointing investors.

The NZD was subject to the same swings in the USD as its peers through the opening stages of the month. However, the currency was given a lift over the final week of January, aided by the stronger than expected Q4 CPI release. There was no additional stimulus from dairy, as had been seen into the end of 2016, while regional holidays on the 23<sup>rd</sup> and 30<sup>th</sup> dented liquidity.



## ASB Economics &amp; Research

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	<a href="mailto:nick.tuffley@asb.co.nz">nick.tuffley@asb.co.nz</a>	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	<a href="mailto:jane.turner@asb.co.nz">jane.turner@asb.co.nz</a>	(649) 301 5853	
Senior Rural Economist	Nathan Penny	<a href="mailto:nathan.penny@asb.co.nz">nathan.penny@asb.co.nz</a>	(649) 448 8778	
Economist	Daniel Snowden	<a href="mailto:daniel.snowden@asb.co.nz">daniel.snowden@asb.co.nz</a>	(649) 301 5657	
Economist	Kim Mundy	<a href="mailto:kim.mundy@asb.co.nz">kim.mundy@asb.co.nz</a>	(649) 301 5661	
Publication and Data Manager	Judith Pinto	<a href="mailto:Judith.pinto@asb.co.nz">Judith.pinto@asb.co.nz</a>	(649) 3015660	

<https://reports.asb.co.nz/index.html>

[@ASBMarkets](#)



ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

## Important Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.