

1 August 2018



Events Round-Up

NZ: ANZ activity outlook, Jul: 3.8 vs. 9.4 prev.
CH: Non-manufacturing PMI, Jul: 54.0 vs. 54.9 exp.
CH: Manufacturing PMI, Jul: 51.2 vs. 51.3 exp.
JN: BOJ 10-yr yield target, Jul: 0.0 vs. 0.0 exp.
GE: Unemployment rate (%), Jul: 5.2 vs. 5.2 exp.
EC: Unemployment rate (%), Jun: 8.3 vs. 8.3 exp.
EC: Core CPI (y/y%), Jul: 1.1 vs. 1.0 exp.
EC: CPI (y/y%), Jul: 2.1 vs. 2.0 exp.
EC: GDP (q/q%), Q2: 0.3 vs. 0.4 exp.
CA: GDP (m/m%), May: 0.5 vs. 0.3 exp.
US: Core PCE (y/y%), Jun: 1.9 vs. 2.0 exp.
US: Employment cost index (q/q%), Q2: 0.6 vs. 0.7 exp.
US: Chicago purchasing manager, Jul: 65.5 vs. 62.0 exp.
US: Conf. Board cons. confid., Jul: 127.4 vs. 126.0 exp.
NZ: QV house prices (y/y%), Jul: 5.1 vs. 5.7 prev.

Good Morning

On an action-packed day, market movements have been modest, with the AUD and CAD supported overnight and the NZD dragging the chain, while JPY has remained soft after the more dovish BoJ yesterday. The latter has also kept global bond rates in check.

It has been one of the busiest days this year on the economic calendar with the round-up above only providing a snapshot of the key reports. In the event, the biggest market mover has been something that wasn't on the calendar. Bloomberg reported that the US and China are trying to restart talks to avoid a full-blown trade war, with US Treasury Secretary Mnuchin and China's Vice Premier Liu apparently having private conversations. A source said that the US is trying to secure certain concessions and if China agrees, it is possible the US would back off additional tariffs.

That report has supported a recovery in US equities, with the S&P500 currently up 0.6%, and supported commodity currencies, with the AUD and CAD the best performers overnight, albeit gains have been modest. CAD was further supported by stronger than expected GDP figures. AUD is up 0.4% on the day to 0.7440 while USD/CAD is down 0.3% to 1.3000. The CAD weakened yesterday afternoon after a report that Canada was said to be

rejected from upcoming NAFTA talks, but that loss has now been more than fully unwound.

The NZD has slightly underperformed the commodity block and has traded a fairly narrow 30pip range over the past 24 hours and currently sits flat around 0.6820. The ANZ business outlook survey showed more weakness in business confidence, down to a 10-year low. While a significant level shift down in confidence is normal when a Labour-led government is in power and this needs to be acknowledged before jumping to conclusions, we can point to other factors that are likely weighing on confidence and these pose a risk to the economic outlook. A weaker growth and higher inflation dynamic evident in the survey and elsewhere provide a challenging backdrop for the RBNZ to consider in setting policy. NZD/AUD headed below 0.92 after the survey and has made further losses overnight to 0.9170.

There was much anticipation ahead of the BoJ's meeting, but what was offered was an array of minor tweaks to its policy stance, and overall ended more dovish than expected. Inflation forecasts were downgraded and Governor Kuroda admitted that achievement of the target will be "beyond our [three-year] forecast timeframe". Amongst other tweaks, forward guidance was introduced to keep rates low for an "extended period of time" while Governor Kuroda noted that the effective range that the 10-year JGB will be allowed to trade in would be doubled, from +/- 10bps to +/-20bps, keeping the official target level at zero percent.

JPY has been the weakness of the majors since the announcement, seeing USD/JPY head from 111.00 to 111.80 this morning. The seemingly reduced threat of JGB yields heading higher saw the US 10-year rate shed 4bps after the announcement to 2.93%. The more positive risk sentiment backdrop and economic data flow has seen a climb back up to 2.96%.

US economic releases showed stronger than expected consumer and business confidence (Chicago PMI), although inflation indicators were a little softer. Inflation in the employment cost index still shows a clear upward trend, but the rise in Q2 was lower than expected, while the core PCE deflator slipped from 2.0% y/y to 1.9%. Euro area economic data were also mixed but the reverse pattern to the US, with inflation slightly higher than expected and growth slightly lower. Both EUR and GBP are flat for the day.

The NZ rates market showed a slight fall post BoJ, but a bigger influence on the day was the prior upwards overnight move in US rates. Furthermore, a big flow in the market that caused significant outperformance of NZ bonds last week now seems to have cleared and this now sees upward pressure on yields. Government rates were up 2-3bps across the curve, while swap rates rose by 1-2bps.

NZ labour market data this morning are expected to show a tight labour market and the increase in the minimum wage breathing some life into wage inflation data. Coming hot on the heels of signs of higher core inflation data, a positive surprise for wages would add to the case that the next move by the RBNZ will be tighter, not easier, monetary policy.

Tonight sees the release of US ISM manufacturing and ADP employment data, ahead of the more important payrolls figure at the end of the week. The FOMC announcement should pass without fanfare, with the Fed likely to continue its messaging of gradual policy

tightening, with the possible addition of the words “for now”, introducing a degree of data dependency into the mix, as indicated by Chair Powell’s July testimony to lawmakers.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Unemployment rate (%)	Q2	4.4	4.4	10:45
NZ	Employment change (q/q%)	Q2	0.4	0.6	10:45
NZ	Pvt wages ex overtime (q/q%)	Q2	0.7	0.3	10:45
NZ	Average hrly earnings (q/q%)	Q2	1.0	1.1	10:45
CH	Caixin PMI manufacturing	Jul	50.9	51.0	13:45
UK	Markit PMI manufacturing	Jul	54.2	54.4	20:30
US	ADP employment change (k)	Jul	186	177	00:15
US	Construction spending (m/m%)	Jun	0.3	0.4	02:00
US	ISM manufacturing	Jul	59.3	60.2	02:00
US	Fed Funds target band (%)	Aug	1.75-2	1.75-2	06:00

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	0.6821	-0.0	0.6801	0.6830	CHF	0.9898	+0.2	S&P 500	2,820	+0.6	14.2	Oil (Brent)	74.25	-1.0
AUD	0.7440	+0.4	0.7406	0.7441	SEK	8.788	+0.4	Dow	25,466	+0.6	16.3	Oil (WTI)	68.70	-2.0
EUR	1.1701	-0.0	1.1689	1.1746	NOK	8.151	+0.2	Nasdaq	7,689	+0.8	21.1	Gold	1224.0	+0.2
GBP	1.3130	-0.0	1.3090	1.3173	HKD	7.849	+0.0	Stoxx 50	3,525	+0.4	2.2	HRC steel	898.0	+1.0
JPY	111.82	+0.7	111.04	111.96	CNY	6.817	+0.0	FTSE	7,749	+0.6	5.1	CRB	194.5	-0.6
CAD	1.2994	-0.3			SGD	1.360	-0.0	DAX	12,806	+0.1	5.7	Wheat Chic.	573.3	+1.4
NZD/AUD	0.9168	-0.5			IDR	14,414	-0.0	CAC 40	5,511	-0.0	8.2	Sugar	10.55	-2.5
NZD/EUR	0.5829	-0.0			THB	33.19	-0.2	Nikkei	22,554	+0.0	12.8	Cotton	90.28	+0.7
NZD/GBP	0.5195	-0.0			KRW	1,119	-0.1	Shanghai	2,876	+0.3	-12.6	Coffee	109.9	-1.3
NZD/JPY	76.27	+0.7			TWD	30.63	+0.1	ASX 200	6,280	+0.0	8.8	WM powder	2975.0	-0.2
NZD/CAD	0.8863	-0.3			PHP	53.10	-0.2	NZX 50	8,922	+0.0	15.4	Australian Futures		
NZ TWI	73.48	-0.2										3 year bond	97.87	0.00
												10 year bond	97.31	-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		Last
USD	2.00	2.34	2.88	3.03	USD	2.96	-0.01	NZGB 6 05/15/21	1.91	0.02	1 year	2.01	-0.01
AUD	1.50	1.96	2.10	2.87	AUD	2.65	-0.00	NZGB 5 1/2 04/15/23	2.14	0.02	2 year	2.14	0.01
NZD	1.75	1.91	2.14	3.03	NZD	2.61	0.03	NZGB 2 3/4 04/15/25	2.44	0.02	5 year	2.56	0.01
EUR	0.00	0.06	-0.15	0.94	GER	0.44	-0.00	NZGB 4 1/2 04/15/27	2.61	0.03	7 year	2.79	0.01
GBP	0.50	0.79	1.12	1.59	GBP	1.33	-0.01	NZGB 3 04/20/29	2.76	0.03	10 year	3.04	0.02
JPY	-0.07	-0.04	0.05	0.30	JPY	0.06	-0.04	NZGB 3 1/2 04/14/33	2.93	0.03	15 year	3.30	0.01
CAD	1.50	1.17	2.41	2.73	CAD	2.34	0.04	NZGB 2 3/4 04/15/37	3.07	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 06:51

Source: Bloomberg

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