

2 August 2018



Events Round-Up

NZ: Unemployment rate (%), Q2: 4.5 vs. 4.4 exp.
NZ: Employment change (q/q%), Q2: 0.5 vs. 0.4 exp.
NZ: Pvt wages ex overtime (q/q%), Q2: 0.6 vs. 0.6 exp.
CH: Caixin PMI manufacturing, Jul: 50.8 vs. 50.9 exp.
UK: Markit PMI manufacturing, Jul: 54.0 vs. 54.2 exp.
US: ADP employment change (k), Jul: 219 vs. 186 exp.
US: ISM manufacturing, Jul: 58.1 vs. 59.4 exp.
US: Fed Funds target (%), Aug: 1.75-2 vs. 1.75-2 exp.

Good Morning

Currency movements overnight have been modest, with the yen slightly stronger on slightly lower risk sentiment. The NZD and AUD have sustained the small losses seen during local trading hours yesterday. Global rates are higher, with some spillover evident from higher JGB yields.

The FOMC Statement released this morning was little changed from the previous one in June. The description of the economy was simply updated to reflect recent data, with economic activity said to be rising at a "strong" rate, upgraded from "solid" rate, following last week's GDP figures. The text on the outlook was the same word-for-word, with the FOMC deciding *not* to add the comment "for now" in describing the likely further gradual increases in rates, words that Chair Powell had used at last month's testimony to law-makers.

Market reaction to the Statement was fairly minimal. Another rate hike in September is close to fully priced, and the market remains fairly confident that a further rate hike in December will prevail (+43bps priced into Fed Fund futures through to year-end). Next year remains much more interesting on the policy front, as rates head closer to neutral and the gap between market and FOMC expectations is much greater.

The biggest news of the past 24 hours came yesterday morning, as reports came through of Trump directing the proposed tariff rate on \$200b of additional China imports to be raised from 10% to 25%. A period of consultation is still underway and is due to end 30 August. Upping the ante on tariffs might simply reflect a negotiating tactic by President Trump to squeeze out some concessions from China. An official announcement on tariffs is due from the White House soon after we go to press.

That tariff news had an immediate negative impact on the

NZD and AUD. The NZD was sub 0.68 by mid-afternoon and the currency has treaded water since, making an overnight low of 0.6782. NZ employment and wage data were very close to market expectations and shouldn't have changed anyone's views. Employment is expanding, unemployment is low, and wages are rising.

In overnight data, US ADP employment was stronger than expected, setting the scene for a strong non-farm payrolls report at the end of the week. ISM manufacturing fell more than expected to a 12-month low. The ISM press release said that respondents are "overwhelmingly concerned about how tariff-related activity, including reciprocal tariffs, will continue to affect their business". One hopes that Trump will back away from his proposed tariff policies as more evidence comes to light on their unintended consequences.

The fall in JGB rates post the BoJ announcement on Tuesday proved to be temporary, with that fall more than reversing yesterday, with the 10-year rate up a hefty 6bps to 0.12%. Traders reported margin calls on JGB futures and an unwinding of yen-hedged positions in German, French and Italian bonds.

Thus, the BoJ's decision to ultimately allow the 10-year rate to trade up to as high as 0.20% spilled over into global bond markets. European 10-year rates were up in the order of 3-6bps and US 10-year Treasuries got as high as 3.01%, breaking the 3% barrier for the first time since late-May. The US Treasury's refunding statement that showed a lift in issuance across the curve shouldn't have surprised, but might have contributed to higher rates. NZ's swap curve was little changed yesterday, but some upward drift in rates was evident across the government curve, with rates up 2-3bps.

In currency markets, JPY has been the biggest mover, seeing the yen extend losses yesterday and USD/JPY rising up through 112.10. Since then, the yen has strengthened, with a risk-off mood prevailing, with some nervousness ahead of the White House's announcement on tariffs. USD/JPY is back down to 111.50. NZD/JPY is down 0.6% for the day to 75.7.

Tonight sees the BoE announcement and the central bank is widely expected (90% priced) to raise its policy rate for just the second time this cycle. However, it is also widely seen to be a "dovish hike". With Brexit risks still overhanging the economy, it's hard to see the BoE becoming overly hawkish at this stage.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance (\$m)	Jun	900	827	13:30
NZ NZ to sell \$100m 2040 inflation bonds				14:05
UK Markit construction PMI	Jul	52.8	53.1	20:30
UK Bank of England bank rate (%)	Aug	0.75	0.50	23:00

Source: Bloomberg, BNZ.

Foreign Exchange								Equities				Commodities**		
Indicative overnight ranges (*)				Other FX				Major Indices				Price		
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day
NZD	0.6791	-0.4	0.6782	0.6811	CHF	0.9918	+0.2	S&P 500	2,810	-0.2	13.5	Oil (Brent)	72.44	-2.4
AUD	0.7400	-0.3	0.7390	0.7421	SEK	8.804	+0.1	Dow	25,357	-0.2	15.4	Oil (WTI)	67.80	-1.4
EUR	1.1662	-0.2	1.1657	1.1700	NOK	8.174	+0.2	Nasdaq	7,699	+0.4	21.0	Gold	1217.6	-0.5
GBP	1.3128	+0.0	1.3096	1.3144	HKD	7.849	-0.0	Stoxx 50	3,509	-0.5	0.9	HRC steel	898.0	+0.3
JPY	111.57	-0.3	111.39	112.15	CNY	6.823	+0.1	FTSE	7,653	-1.2	3.1	CRB	191.6	-1.5
CAD	1.2993	-0.1			SGD	1.362	+0.0	DAX	12,737	-0.5	4.0	Wheat Chic.	578.8	+1.1
NZD/AUD	0.9177	-0.0			IDR	14,440	+0.2	CAC 40	5,498	-0.5	7.2	Sugar	10.48	-0.7
NZD/EUR	0.5823	-0.2			THB	33.16	-0.1	Nikkei	22,747	+0.9	13.3	Cotton	89.06	-0.5
NZD/GBP	0.5173	-0.4			KRW	1,121	+0.2	Shanghai	2,825	-1.8	-14.0	Coffee	108.1	-1.7
NZD/JPY	75.77	-0.6			TWD	30.61	-0.0	ASX 200	6,276	-0.1	9.3	WM powder	2985.0	+0.3
NZD/CAD	0.8824	-0.5			PHP	53.02	-0.2	NZX 50	8,860	-0.7	14.3	Australian Futures		
NZ TWI	73.30	-0.3										3 year bond	97.845	-0.03
												10 year bond	97.26	-0.05
Interest Rates								NZ Government Bonds				NZ Swap Yields		
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	2.00	2.35	2.90	3.07	USD	3.00	0.04	NZGB 6 05/15/21	1.93	0.01	1 year	2.01	-0.00	
AUD	1.50	1.96	2.12	2.92	AUD	2.69	0.04	NZGB 5 1/2 04/15/23	2.16	0.02	2 year	2.14	-0.01	
NZD	1.75	1.90	2.14	3.05	NZD	2.63	0.02	NZGB 2 3/4 04/15/25	2.47	0.02	5 year	2.56	0.00	
EUR	0.00	0.06	-0.14	0.97	GER	0.48	0.04	NZGB 4 1/2 04/15/27	2.63	0.02	7 year	2.80	0.00	
GBP	0.50	0.80	1.14	1.63	GBP	1.38	0.05	NZGB 3 04/20/29	2.78	0.03	10 year	3.05	0.01	
JPY	-0.07	-0.03	0.06	0.37	JPY	0.13	0.07	NZGB 3 1/2 04/14/33	2.96	0.02	15 year	3.30	0.00	
CAD	1.50	1.17	2.43	2.77	CAD	2.38	0.07	NZGB 2 3/4 04/15/37	3.10	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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