

2 July 2018



Events Round-Up

NZ: ANZ consumer confidence, Jun: 120.0 vs. 121.0 prev.
NZ: Building permits (m/m%), May: 7.1 vs. -3.6 prev.
UK: GfK consumer confidence, Jun: -9 vs. -7 exp.
JN: Industrial production (m/m%), May: -0.2 vs. -1.0 exp.
GE: Unemployment claims rate (%), Jun: 5.2 vs. 5.2 exp.
EC: Core CPI (y/y%), Jun: 1.0 vs. 1.0 exp.
CA: GDP, (m/m%), Apr: 0.1 vs 0.0 exp.
US: Core PCE deflator (y/y%), May: 2.0 vs. 1.9 exp.
US: Personal income (m/m%), May: 0.4 vs. 0.4 exp.
US: Personal spending (m/m%), May: 0.2 vs. 0.4 exp.
US: Chicago purchasing manager, Jun: 64.1 vs. 60.0 exp.
CH: Non-manufacturing PMI, Jun: 55.0 vs. 54.8 exp.
CH: Manufacturing PMI, Jun: 51.5 vs. 51.6 exp.

Good Morning

The USD was broadly weak on Friday, reflecting a mixture of news and position covering ahead of month-end. This saw the NZD recover a little from a fresh 2-year low, although much of the action was in local trading hours. There remained little action in global bond markets, while NZ rates fell further.

A sleepy Friday afternoon session was awoken by reports that EU leaders struck a deal on migrants. The toughened-up migration plan included setting up refugee processing centres outside Europe and the EU as a collective sharing responsibility for migrants rescued at sea. This agreement was seen to pave the way for Germany's CSU and CDU coalition partners to make up and hopefully secure Merkel's position. But over the weekend, the agreement reached was deemed insufficient enough to reduce immigration and some doubt remains over the future of the German government. EUR rose sharply and this spilled over into other currencies, with traders taking up the opportunity to close short positions. The USD seemed to be the main casualty and it lost further ground in Friday night trading. The weekend news could see some of this price action reverse course as the new week begins.

EUR rose from around 1.1570 to end the week more than a cent higher at 1.1685, even with the ECB's Draghi warning that an escalating trade war may have a larger impact than policy makers and investors currently expect.

Euro-area CPI data were keenly awaited, but were in line with expectations, with headline inflation nudging up to 2.0%, but core CPI inflation nudging down to 1.0%.

Strength in EUR spilled over into a stronger GBP, with a small upward revision to UK Q2 GDP adding to its performance, with GBP ending the week over the 1.32 mark. Soundbites on Brexit emanating out of the EU summit were mainly negative, with signs of frustration by EU leaders of the lack of progress by Britain in putting forth proposals on the way forward. EC President Tusk said that "there's a great deal of work ahead and the most difficult tasks are still unresolved...this is the last call to lay the cards on the table." The FT reported that the UK's chief Brexit negotiator Davis had spent just four hours in talks over the whole year with his EU counterpart Barnier. GBP largely ignored these negative vibes.

The EU migrant deal saw the NZD rise from a fresh 2-year low of 0.6736 to near 0.6780 by the NZ close and there was no further progress in Friday night trading. CFTC data showed that short positioning in the NZD extended in the period ending 26 June and we suspect that post the OCR Review on Thursday more short positions were put on. This takes the NZD to historically extreme levels of short positioning, which increases the hurdle for significant further near-term weakness. Technicals don't give a clear picture, with one wondering about the potential for further weakness since the break of key technical levels last week while the relative strength indicator suggests that the Kiwi is currently oversold.

CAD was the strongest of the majors in Friday night trading. Canada GDP was slightly better than expected in April and a BoC business survey showed near-record business confidence and strong capacity constraints. The odds of a rate hike in July rose to 85%. NZD/CAD went sub-89, racking up a weekly loss of over 3%.

US data were mixed, with a strong Chicago PMI but soft consumer spending. The core PCE deflator hit the Fed's 2% target, slightly higher than expected due to rounding. The rates market was unperturbed, seeing the Fed tolerating an overshoot of the inflation target after such a long period of undershooting. US 2-year and 10-year Treasury rates were both up by 2bps for the day, continuing to trade in a tight range.

NZ short term rates continued to show a downward bias after perceptions that the RBNZ had kept an open mind about a possible easing of policy at Thursday's OCR Review. The OIS market shows an ever so slight chance

of a rate cut before year-end, but more price action has been seen further out, with the first full rate hike now not priced until March 2020, some five months further out compared to pre-OCR review pricing. The 2-year swap rate fell by 3bps to 2.14% and was down by a chunky 11bps for the week.

China PMI data released after the NY close showed minor slippage compared to the previous month, albeit not significantly different from expectations.

Trade tensions continue to escalate and the lead story on the FT this morning is that the "EU warns of a \$300bn hit to the US over car import tariffs" on retaliatory measures against the US. The lead WSJ article outlines a Fox interview over the weekend where Trump said he sees imposing auto tariffs as his biggest leverage on getting better trade deals. It doesn't look like a good start to the week for risk assets will ensue.

The key release tonight is the US ISM manufacturing indicator, which is expected to remain high and indicate rising pricing pressures.

jason.k.wong@bnz.co.nz

Coming Up

| | Period | Cons. | Prev. | NZT |
|---------------------------------|--------|-------|-------|-------|
| JN Tankan Large Mfg Outlook | Q2 | 20 | 20 | 11:50 |
| CH Caixin PMI manufacturing | Jun | 51.1 | 51.1 | 13:45 |
| UK PMI manufacturing | Jun | 54.0 | 54.4 | 20:30 |
| EC Unemployment rate (%) | May | 8.5 | 8.5 | 21:00 |
| US Construction spending (m/m%) | May | 0.5 | 1.8 | 02:00 |
| US ISM manufacturing | Jun | 58.5 | 58.7 | 02:00 |

Source: Bloomberg, BNZ.

| Foreign Exchange | | | | | | | Equities | | | | Commodities** | | | |
|---------------------------------|--------|-------------|--------|-----------------------|----------|---------------------|---------------------|---------------------|--------|----------------|----------------|---------------------------|--------|------|
| Indicative overnight ranges (*) | | | | | Other FX | | Major Indices | | | | Price | | | |
| | Last | % Day | Low | High | | Last | % Day | | | Last | % Day | Net Day | | |
| NZD | 0.6774 | +0.1 | 0.6752 | 0.6782 | CHF | 0.9906 | -0.7 | S&P 500 | 2,718 | +0.1 | 12.2 | Oil (Brent) | 79.23 | +2.1 |
| AUD | 0.7405 | +0.7 | 0.7370 | 0.7402 | SEK | 8.943 | -0.8 | Dow | 24,271 | +0.2 | 13.7 | Oil (WTI) | 74.15 | +1.0 |
| EUR | 1.1684 | +1.0 | 1.1613 | 1.1683 | NOK | 8.147 | -0.5 | Nasdaq | 7,510 | +0.1 | 22.3 | Gold | 1254.5 | +0.3 |
| GBP | 1.3208 | +1.0 | 1.3102 | 1.3208 | HKD | 7.847 | -0.0 | Stoxx 50 | 3,396 | +0.9 | -1.3 | HRC steel | 910.0 | -0.1 |
| JPY | 110.76 | +0.2 | 110.48 | 110.88 | CNY | 6.621 | -0.1 | FTSE | 7,637 | +0.3 | 4.4 | CRB | 200.4 | +0.8 |
| CAD | 1.3133 | -0.9 | | | SGD | 1.362 | -0.4 | DAX | 12,306 | +1.1 | -0.2 | Wheat Chic. | 501.3 | +3.7 |
| NZD/AUD | 0.9148 | -0.5 | | | IDR | 14,330 | -0.4 | CAC 40 | 5,324 | +0.5 | 4.0 | Sugar | 12.25 | +0.0 |
| NZD/EUR | 0.5798 | -0.8 | | | THB | 33.04 | -0.4 | Nikkei | 22,305 | +0.2 | 11.3 | Cotton | 85.38 | +0.5 |
| NZD/GBP | 0.5129 | -0.7 | | | KRW | 1,115 | -0.8 | Shanghai | 2,847 | +2.2 | -10.8 | Coffee | 115.1 | -0.6 |
| NZD/JPY | 75.03 | +0.4 | | | TWD | 30.48 | -0.3 | ASX 200 | 6,195 | -0.3 | 8.3 | WM powder | 3150.0 | +0.0 |
| NZD/CAD | 0.8896 | -0.8 | | | PHP | 53.37 | -0.3 | NZX 50 | 8,943 | -0.6 | 17.5 | Australian Futures | | |
| NZ TWI | 72.54 | -0.3 | | | | | | | | | | 3 year bond | 97.91 | 0.00 |
| | | | | | | | | | | | | 10 year bond | 97.36 | 0.00 |
| Interest Rates | | | | | | | NZ Government Bonds | | | | NZ Swap Yields | | | |
| 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 | 2.00 | 2.34 | 2.79 | 2.93 | USD | 2.86 | 0.02 | NZGB 6 05/15/21 | 1.93 | -0.02 | 1 year | 2.06 | -0.01 | |
| AUD | 1.50 | 2.11 | 2.09 | 2.84 | AUD | 2.63 | 0.02 | NZGB 5 1/2 04/15/23 | 2.15 | -0.02 | 2 year | 2.14 | -0.04 | |
| NZD | 1.75 | 2.00 | 2.15 | 3.00 | NZD | 2.65 | -0.00 | NZGB 2 3/4 04/15/25 | 2.45 | -0.01 | 5 year | 2.53 | -0.04 | |
| EUR | 0.00 | 0.06 | -0.18 | 0.87 | GER | 0.30 | -0.02 | NZGB 4 1/2 04/15/27 | 2.65 | -0.00 | 7 year | 2.77 | -0.03 | |
| GBP | 0.50 | 0.67 | 1.02 | 1.52 | GBP | 1.28 | 0.02 | NZGB 3 04/20/29 | 2.84 | -0.01 | 10 year | 3.02 | -0.01 | |
| JPY | -0.08 | -0.05 | 0.04 | 0.26 | JPY | 0.04 | 0.00 | NZGB 3 1/2 04/14/33 | 3.02 | -0.00 | 15 year | 3.28 | -0.02 | |
| CAD | 1.25 | 1.17 | 2.26 | 2.55 | CAD | 2.17 | 0.03 | NZGB 2 3/4 04/15/37 | 3.17 | 0.00 | | | | |

* 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: NY close Sat Morn

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rate Strategist
+64 4 924 7653

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109

Gavin Friend

Senior Market Strategist
+44 20 7710 1588

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Alex Stanley

Senior Interest Rate Strategist
+61 2 9237 8154

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.