

3 August 2018



Events Round-Up

AU: Trade balance (\$m), Jun: 1873 vs. 900 exp.

UK: Markit construction PMI, Jul: 55.8 vs. 52.8 exp.

UK: Bank of Eng. bank rate (%), Aug: 0.75 vs. 0.75 exp.

Good Morning

Increased focus on trade tensions sees a weaker NZD, while GBP has also underperformed despite the BoE hiking rates. UST yields have slipped back below the 3% mark.

Trade tensions are back in the spotlight. Yesterday morning White House officials confirmed that Trump has increased the proposed tariff rate on \$200bn of additional Chinese imports from 10% to 25%. The period of consultation has been extended and will be wrapped up in early September. Late yesterday, China's Ministry of Commerce said that "China is fully prepared and will have to retaliate to defend the nation's dignity and the interests of the people, defend free trade and the multilateral system, and defend the common interests of all countries".

This news saw CNY weakening again and USD/CNY hit a high of 6.85 before stabilising. Some have interpreted the "fully prepared" comment from China as a signal that authorities are willing to allow the currency to depreciate further and not get in the way of market forces. In an overnight TV interview, US Commerce Secretary Ross, in referring to China, said that "We have to create a situation where it's more painful for them to continue their bad practices than it is to reform...the President now feels that it's potentially time to put more pressure on, in order to modify their behaviour".

NZD has been dragged down for the ride, weakening yesterday through the local close and further overnight. It currently sits near its low for the day around 0.6740, still within the 0.67-0.6850 trading range established through July.

The AUD has held up slightly better, but is still down 0.5% to 0.7365, and sees NZD/AUD nudge down to 0.9150, the cross remaining in a very tight range for over a month now. Of the commodity currencies, CAD has outperformed, helped by oil prices rising by 2%. NZD/CAD broke through May's low and sits at its lowest level for the year around 0.8775.

In other news, the BoE voted unanimously to hike bank rate by 25bps to 0.75%, as widely expected, but Governor Carney repeated that further rate hikes will be limited and gradual, adding that policy "needs to walk, not run, to stand still". The Bank's forecasts are conditional on market pricing prevailing before the Statement, which imply one rate hike per year for the next three years or so, and this leaves inflation only marginally above its target. Brexit risks overhang the market and Carney noted that the BoE is prepared for all scenarios. GBP initially spiked higher on the surprise that there were no dissenting votes on the committee, but the dovish overtones saw a fall thereafter. GBP is one of the weakest of the majors, down 0.8% for the day to 1.3025 and NZD/GBP is flat around 0.5180.

A stronger USD backdrop sees EUR down through 1.16, while the yen has managed to recover over the last few hours and sees USD/JPY flat for the day around 111.70.

In the bond market, Japan conducted an unscheduled bond buying operation after the 10-year yield reached as high as 0.145%. This signals that whilst the BoJ ultimately has an upward limit of 0.20%, it is not prepared to see the market jump to that level so quickly, creating more of a two-way market in the short-term. Italy has returned to the spotlight, with its 10-year rate up 12bps to 2.90% on nervousness ahead of Budget talks. US 10-year Treasuries haven't pushed on through the 3% and have retreated a little to sit down slightly to 2.98%. Yesterday, NZ bonds continued to show signs of reversing last week's rally, with long-dated rates up 2-3bps.

Today sees the release of Australian retail sales but we'd expect typically quiet trading conditions ahead of tonight's more important US employment report. The market expects strong employment growth near 200k for the month and the unemployment rate slipping to 3.9%. Wage data will be more important, and the market sees annual wage inflation steady at 2.7%, so no threat to the gradual tightening path laid down by the Fed.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
AU Retail sales (m/m%)	Jun	0.3	0.4	13:30
AU Real retail sales (q/q%)	Q2	0.8	0.2	13:30
CH Caixin PMI services	Jul	53.5	53.9	13:45
UK Markit services PMI	Jul	54.7	55.1	20:30
US Trade balance (\$b)	Jun	-46.5	-43.1	00:30
US Change in nonfarm payrolls (k)	Jul	192	213	00:30
US Unemployment rate (%)	Jul	3.9	4	00:30
US Average hourly earnings (m/m%)	Jul	0.3	0.2	00:30
US Average hourly earnings (y/y%)	Jul	2.7	2.7	00:30
US ISM non-manf. composite	Jul	58.6	59.1	02:00

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.6743	-0.7	0.6740	0.6781	S&P 500	2,826	+0.5	14.1	Oil (Brent)	73.42	+1.4
AUD	0.7365	-0.5	0.7355	0.7389	Dow	25,320	-0.1	15.0	Oil (WTI)	68.92	+1.9
EUR	1.1589	-0.6	1.1584	1.1654	Nasdaq	7,795	+1.1	22.5	Gold	1208.6	-0.8
GBP	1.3025	-0.8	1.3016	1.3125	Stoxx 50	3,469	-1.1	0.3	HRC steel	900.0	+0.3
JPY	111.69	-0.0	111.32	111.74	FTSE	7,576	-1.0	2.2	CRB	192.7	+0.5
CAD	1.3023	+0.1			DAX	12,546	-1.5	3.0	Wheat Chic.	582.8	+0.7
NZD/AUD	0.9155	-0.2			CAC 40	5,461	-0.5	6.9	Sugar	10.59	+1.0
NZD/EUR	0.5818	-0.1			Nikkei	22,513	-1.0	12.4	Cotton	89.44	+0.0
NZD/GBP	0.5177	+0.1			Shanghai	2,768	-2.0	-15.4	Coffee	106.7	-1.2
NZD/JPY	75.31	-0.7			ASX 200	6,241	-0.6	8.8	WM powder	2980.0	-0.2
NZD/CAD	0.8781	-0.6			NZX 50	8,849	-0.1	14.1	Australian Futures		
NZ TWI	73.03	-0.4							3 year bond	97.855	0.01
									10 year bond	97.27	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	Last			
USD	2.00	2.35	2.88	3.06	USD	2.98	-0.02	NZGB 6 05/15/21	1.93	0.01	1 year	2.02	0.02
AUD	1.50	1.97	2.11	2.91	AUD	2.73	0.04	NZGB 5 1/2 04/15/23	2.17	0.01	2 year	2.14	0.01
NZD	1.75	1.92	2.14	3.07	NZD	2.65	0.02	NZGB 2 3/4 04/15/25	2.49	0.02	5 year	2.57	0.01
EUR	0.00	0.06	-0.14	0.96	GER	0.46	-0.02	NZGB 4 1/2 04/15/27	2.65	0.02	7 year	2.81	0.02
GBP	0.75	0.80	1.13	1.64	GBP	1.38	-0.00	NZGB 3 04/20/29	2.80	0.02	10 year	3.07	0.02
JPY	-0.07	-0.03	0.06	0.35	JPY	0.13	-0.01	NZGB 3 1/2 04/14/33	2.99	0.03	15 year	3.32	0.02
CAD	1.50	1.17	2.43	2.75	CAD	2.37	-0.01	NZGB 2 3/4 04/15/37	3.12	0.02			

* 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 06:54

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.