

3 July 2018



Events Round-Up

JN: Tankan Large Mfg Index, Q2: 21 vs. 22 exp.

CH: Caixin PMI manufacturing, Jun: 51.0 vs. 51.1 exp.

UK: PMI manufacturing, Jun: 54.4 vs. 54.0 exp.

EC: Unemployment rate (%), May: 8.4 vs. 8.5 exp.

US: Construction spending (m/m%), May: 0.4 vs. 0.5 exp.

US: ISM manufacturing, Jun: 60.2 vs. 58.5 exp.

Good Morning

The beginning of the third quarter has got off to a rough start, with falling risk appetite seeing weaker equity markets and the NZD and AUD diving to fresh lows. Despite the negative risk tone, global bond yields remain steady.

Yesterday we reported the bad headlines over the weekend and suggested that it didn't look like a good start to the week for risk assets. Political uncertainty in Germany and escalating tensions on global trade, centred around President Trump's policies and possible retaliatory action, dominated the headlines. During the local trading session, Asian equity markets fell and futures for European and US markets declined. Overnight, the euro-area's Stoxx 600 declined by 0.8%. The S&P 500 was down 0.6% when I woke up but now close to flat as I sign off.

On German politics, Merkel is currently meeting the Bavarian coalition leader of the CSU party Seehofer. We await an announcement, with the result being no change to the status quo, allowing Merkel to govern, or a break-up that could see Merkel run a minority government or call fresh elections.

There have been no major developments on the global trade front. It still all looks pretty ugly, with Trump expected to impose the promised extra tariffs on \$50b of China imports at the end of the week and China likely to follow with retaliatory action. Meanwhile, the EU is preparing its moves against Trump's threats to put tariffs on the auto sector. The late turnaround in the S&P500 might reflect some more positive comments by Trump to reporters this morning, saying he's close to making a "fair" trade deal with the EU. He also said that he isn't planning anything on WTO membership for now but may do if the organisation isn't fair to the US – a response to a weekend report that the US was looking to ignore WTO trade rules, effectively withdrawing.

The NZD held up surprisingly during the local trading session when everything was pointing to a decline in risk appetite, hanging in around the 0.6770 mark, but after the close it has been all downhill and the currency made a fresh 2-year low overnight of 0.6690. The currency currently sits 1% lower for the day near 0.6700. The only remaining support level close by is the May 2016 low near 0.6675 and a break of that would open up the threat of moving sub-0.65.

The NZD has been in good company, with AUD falling by a similar amount, currently down 1.1% to 0.7320. NZD/AUD is thus fairly steady around 0.9150. Both Antipodean currencies have been hit the hardest of the majors, given their strong link to China, the centre of Trump's trade deficit obsession. CNY is also proving to be weak, as investors contemplate the possible weak global trade environment and softer Chinese economy. USD/CNY is up 0.7% to 6.6680, an eight-month high, with CNY weakness over recent days more a reflection of market forces than any PBoC encouragement regarding the daily CNY fix.

In global economic news, China's PMI manufacturing data, both the official and Caixin versions, were marginally softer than expected, final manufacturing PMI data for the euro area was revised down a touch and Japan's Tankan large manufacturer's index was a touch weaker than expected – small misses but not helping market sentiment. By contrast the US manufacturing PMI was much stronger than expected, but largely driven by one component, slower supplier deliveries, a sign of further capacity constraints and therefore inflationary pressure in the economy. This news might be behind US Treasury yields not falling in the risk-off environment. The 2-year rate is up 2bps to 2.54% while the 10-year rate is flat at 2.86% after being as low as 2.82% last night. Comments in the survey showed that respondents are "overwhelmingly concerned about how tariff related activity is and will continue to affect their business".

The USD has been the strongest of the majors, with the various USD indices up in the order of 0.4-0.6%. EUR is back flirting with 1.16 and GBP down to 1.3120. The safe-haven yen has held up better at 110.90. The NZD is down 0.4-0.5% against EUR and GBP to 0.5775 and 0.5105, and down 0.8% on NZD/JPY to 74.3.

Today, the NZIER's quarterly survey of business opinion will provide more information on the state of the economy, likely to show further slippage in activity indicators and rising inflationary pressure, an awkward mix

as the RBNZ decides the appropriate course of monetary policy. The RBA's meeting should be a non-event although the market will be interested if any concerns are raised about the global trade and economic outlook, which could easily be interpreted on the dovish side. The GDT dairy auction tonight is expected to show some modest slippage in USD pricing.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Qtrly survey of business opin.	Q2		-11	10:00
AU	Building approvals (m/m%)	May	0.0	-5.0	13:30
AU	RBA cash rate target (%)	Jul	1.5	1.5	16:30
UK	Markit construction PMI	Jun	52.5	52.5	20:30
NZ	GDT dairy auction avg. winning price				
NZ	QV house prices (y/y%)	Jun		6.9	05:00

Source: Bloomberg, BNZ.

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)				Other FX			Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6702	-1.0	0.6690	0.6778	CHF	0.9949	+0.4		S&P 500	2,717	-0.1	12.1	Oil (Brent)	77.32	-2.4
AUD	0.7323	-1.1	0.7311	0.7384	SEK	8.993	+0.6		Dow	24,219	-0.2	13.4	Oil (WTI)	73.87	-0.4
EUR	1.1608	-0.7	1.1591	1.1655	NOK	8.196	+0.6		Nasdaq	7,532	+0.3	22.7	Gold	1243.1	-0.9
GBP	1.3123	-0.6	1.3095	1.3182	HKD	7.844	-0.0		Stoxx 50	3,372	-0.7	-2.0	HRC steel	912.0	+0.2
JPY	110.88	+0.1	110.60	110.93	CNY	6.668	+0.7		FTSE	7,548	-1.2	3.2	CRB	197.5	-1.4
CAD	1.3203	+0.5			SGD	1.371	+0.6		DAX	12,238	-0.6	-0.7	Wheat Chic.	480.3	-3.9
NZD/AUD	0.9152	+0.1			IDR	14,390	+0.4		CAC 40	5,277	-1.2	3.0	Sugar	11.56	-5.6
NZD/EUR	0.5774	-0.4			THB	33.18	+0.4		Nikkei	21,812	-2.2	8.8	Cotton	84.50	-1.1
NZD/GBP	0.5107	-0.5			KRW	1,120	+0.5		Shanghai	2,776	-2.5	-13.2	Coffee	111.7	-2.9
NZD/JPY	74.31	-0.9			TWD	30.54	+0.2		ASX 200	6,178	-0.3	8.7	WM powder	3150.0	+0.0
NZD/CAD	0.8849	-0.4			PHP	53.39	+0.0		NZX 50	8,942	-0.0	17.8	Australian Futures		
NZ TWI	72.18	-0.5											3 year bond	97.95	0.04
													10 year bond	97.40	0.03

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				
USD	2.00	2.34	2.81	2.94	USD	2.86	0.00	NZGB 6 05/15/21	1.92	-0.01	1 year	2.06	0.00
AUD	1.50	2.10	2.06	2.80	AUD	2.60	-0.04	NZGB 5 1/2 04/15/23	2.14	-0.01	2 year	2.14	0.00
NZD	1.75	1.99	2.14	3.00	NZD	2.63	-0.02	NZGB 2 3/4 04/15/25	2.44	-0.02	5 year	2.53	0.00
EUR	0.00	0.06	-0.18	0.88	GER	0.30	0.00	NZGB 4 1/2 04/15/27	2.63	-0.02	7 year	2.76	-0.00
GBP	0.50	0.67	1.01	1.51	GBP	1.26	-0.02	NZGB 3 04/20/29	2.82	-0.02	10 year	3.01	-0.01
JPY	-0.07	-0.05	0.04	0.25	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	3.00	-0.02	15 year	3.27	-0.00
CAD	1.25	1.17	2.26	2.55	CAD	2.17	0.03	NZGB 2 3/4 04/15/37	3.15	-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 06:55

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

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