

3 September 2018



Events Round-Up

NZ: ANZ Consumer confidence, Aug: 117.6 vs. 118.4 prev.
UK: GfK consumer confidence, Aug: -7 vs. -10 exp.
JN: Tokyo CPI ex-fresh food(y/y%), Aug: 0.9 vs. 0.8 exp.
JN: Industrial production (m/m%), Jul: -0.1 vs. 0.2 exp.
CH: Non-manufacturing PMI, Aug: 54.2 vs. 53.8 exp.
CH: Manufacturing PMI, Aug: 51.3 vs. 51.0 exp.
EC: Unemployment rate (%), Jul: 8.2 vs. 8.2 exp.
EC: Core CPI (y/y%), Aug: 1.0 vs. 1.1 exp.
US: Chicago PMI, Aug: 63.6 vs. 63.0 exp.
US: U. of Mich. cons. sent., Aug: 96.2 vs. 95.5 exp.

Good Morning

Angst about trade deals dominated Friday trading, seeing safe-haven currencies and the USD outperform, while the AUD hit a fresh low. US equities and the 10-year Treasury rate were little changed ahead of the long US weekend.

On Friday morning Bloomberg published a wide ranging interview with President Trump that set the (negative) tone for the day. Amongst other topics, Trump continued his aggressive line on trade agreements, accusing the EU bloc as being "almost as bad as China" and including threatening to pull the US out of the WTO "if it doesn't shape up". The WTO director warned that a US exit from the WTO would have chaotic consequences for the global economy and the US itself. On a more positive note, after the market closed on Friday, the White House issued a statement that the US has agreed to work with the European Commission to achieve zero tariffs, increase exports and address unfair trade practices.

Commodity currencies drifted lower through the day, despite some of the hard-hit emerging market currencies showing some better performance. In the Friday night trading session, CAD was jumpy ahead of some anticipated announcement on a possible NAFTA deal. In the end, the self-imposed deadline to reach a NAFTA deal that included Canada passed with no agreement in place. But this isn't necessarily bad news as Trump sent notification to Congress that he planned to sign a deal with Mexico in 90 days and would include Canada "if it is willing". In practice, this allows negotiations with Canada to continue and gives 30-days of breathing space before needing to provide a full text of the agreement. USD/CAD ended the day up 0.4% to 1.3040. Over the weekend Trump fired a few barbs against Canada on Twitter

threatening to terminate NAFTA entirely if he didn't get his way, although there is some legal doubt he can actually do that.

The AUD was the weakest of the majors despite some positive China economic data. China's official manufacturing and non-manufacturing PMIs both unexpectedly strengthened in August. This was put down to easier PBoC monetary policy which has driven borrowing costs lower, while local governments have boosted infrastructure spending. The AUD was particularly weak during the overnight trading session and reached its lowest level since the end of 2016 of 0.7176 and ending down 1% for the day to 0.7190. This came about ahead of a busy week on the Australian economic calendar that includes Q2 GDP data and an RBA meeting.

While the NZD was also on the soft side, NZD/AUD broke up through 0.92 for the first time since the beginning of August. Early Friday, Fonterra reduced its projected milk payout for FY19 from \$7 to \$6.75, a smaller downgrade than expected given the recent weakness in global dairy prices and this had little impact on the market. The NZD closed down 0.5% for the day around 0.6620. The near term threat remains a break of the mid-August low of 0.6545. Trump's decision on whether to impose further tariffs on another \$200b of Chinese imports could come as soon as later this week. Doing so and threatening to propose tariffs on the full \$500+b of Chinese imports would probably be enough to see that level broken. On the other hand, a back-track on further tariffs would set the scene for a nice wee rally.

Euro area core CPI inflation undershot surveyed expectations, as forewarned by the weak German CPI data a day earlier, so there was little market reaction to the release. Against a backdrop of a stronger USD, EUR fell by 0.6% for the day to 1.1600. Brexit headlines remain an ongoing source of volatility for GBP. It looks like some progress is being made on various minor issues but EU Brexit negotiator Barnier said that unless agreement was reached on the border with Ireland there would be no deal on anything.

US Treasuries traded a tight range on Friday and the 10-year rate ended unchanged at 2.86%. A mild curve steepening was in play, with the 2-year rate down 2bps. NZ rates were flat to down ever so slightly on Friday after the chunky falls seen in the previous session.

It should be a quiet day ahead with the US on holiday tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Terms of trade (q/q%)	Q2	1.0	-1.9	10:45
AU	Retail sales (m/m%)	Jul	0.3	0.4	13:30
CH	Caixin PMI manufacturing	Aug	50.7	50.8	13:45
UK	Markit PMI manufacturing	Aug		54	20:30

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	0.6622	-0.5	0.6608	0.6660	CHF	0.9689	-0.0			Oil (Brent)	77.64	-0.5	
AUD	0.7189	-1.0	0.7178	0.7261	SEK	9.172	+0.6			Oil (WTI)	69.80	-0.6	
EUR	1.1602	-0.6	1.1585	1.1690	NOK	8.317	-0.3			Gold	1201.6	+0.1	
GBP	1.2960	-0.4	1.2946	1.3029	HKD	7.849	+0.0			HRC steel	865.0	+0.5	
JPY	111.03	+0.0	110.69	111.13	CNY	6.832	-0.2			CRB	193.0	+0.1	
CAD	1.3040	+0.4			SGD	1.372	+0.3			Wheat Chic.	545.5	+2.0	
NZD/AUD	0.9211	+0.5			IDR	14,710	+0.2			Sugar	10.60	+0.3	
NZD/EUR	0.5708	+0.0			THB	32.77	-0.1			Cotton	82.31	-0.1	
NZD/GBP	0.5110	-0.1			KRW	1,113	+0.4			Coffee	101.8	-0.8	
NZD/JPY	73.52	-0.5			TWD	30.72	+0.1			WM powder	2850.0	+0.0	
NZD/CAD	0.8635	-0.0			PHP	53.56	+0.1			Australian Futures			
NZ TWI	72.07	-0.2								3 year bond	98.03	0.05	
										10 year bond	97.51	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	2.32	2.82	2.93	USD	2.86	0.01	NZGB 6 05/15/21	1.68	-0.01	1 year	1.93	0.00
AUD	1.50	1.95	1.98	2.69	AUD	2.52	-0.05	NZGB 5 1/2 04/15/23	1.91	-0.01	2 year	1.98	-0.00
NZD	1.75	1.91	1.98	2.81	NZD	2.37	-0.01	NZGB 2 3/4 04/15/25	2.18	-0.02	5 year	2.32	-0.00
EUR	0.00	0.06	-0.15	0.87	GER	0.33	-0.02	NZGB 4 1/2 04/15/27	2.37	-0.01	7 year	2.56	-0.01
GBP	0.75	0.80	1.11	1.54	GBP	1.43	-0.03	NZGB 3 04/20/29	2.53	-0.01	10 year	2.83	-0.01
JPY	-0.05	-0.03	0.06	0.33	JPY	0.11	-0.00	NZGB 3 1/2 04/14/33	2.70	-0.02	15 year	3.08	-0.01
CAD	1.50	1.17	2.40	2.62	CAD	2.23	-0.05	NZGB 2 3/4 04/15/37	2.86	-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: NY close Sat Morn

Source: Bloomberg

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