

4 July 2018



Events Round-Up

NZ: Qtrly survey of business opin., Q2: -20 vs. -11 prev.

AU: Building approvals (m/m%), May: -3.2 vs. 0.0 exp.

AU: RBA cash rate target (%), Jul: 1.5 vs. 1.5 exp.

UK: Markit construction PMI, Jun: 53.1 vs. 52.5 exp.

NZ: GDT dairy auction avg. winning price: -5.0%

NZ: QV house prices (y/y%), Jun: 5.7 vs. 6.9 prev.

Good Morning

The NZD has recovered, helped by a verbal intervention by the PBoC to help support the yuan, on a day where US equities and bond yields have moved lower.

After falling steadily over the past few weeks, the NZD has shown a rare increase, currently up 0.6% for the day to 0.6755, with all the gain coming after the local close. The positive turnaround can be attributed to comments by PBoC Governor Yi Gang. He said that China will keep the yuan exchange rate basically stable at a reasonable and balanced level. The comments came after USD/CNY breached 6.70, so there is speculation that this level might represent a line in the sand for the PBoC. CNY saw a swing of about 1% after the comments. After trading as high as 6.72 earlier in the day, USD/CNY finished at 6.6425. The Statement followed three weeks of unusually significant CNY weakness which the PBoC attributed to a stronger USD and external uncertainties. There were also reports from traders of state banks aggressively buying the Yuan. Another PBoC official stated that China won't use the Yuan as a tool in trade conflicts.

The NZD essentially followed the path of CNY. A fresh 2-year low of 0.6688 was set near the nadir in CNY weakness, with the quarterly survey of business opinion offering no support to the NZD. The survey showed business confidence falling to a 7-year low, with the market putting more weight on the soft activity indicators than the survey's evidence of rising inflationary pressure. We've seen a steady rise in the NZD since the PBoC comments, with the currency trading near its highs for the day despite a weak GDT dairy auction overnight. The GDT price index fell by 5.0%, with whole milk powder down 7.3%, larger falls than expected.

Given the NZD's strong link to CNY over the last week or two, some stability in CNY provides some hope that the relentless selling pressure in the NZD will now end and help the NZD enter a consolidation phase.

Earlier in the week we wrote about the extreme short positioning in the NZD from speculators and there was more evidence of that as the overnight cash rate implied in the NZD swaps market reached some 200bps over cash in a mad scramble to borrow NZD. Other factors were also in play, but the RBNZ stepped into the market to help bring the cash rate lower by injecting NZD in the swaps market and offering an unusually large \$600m RB Bill tender to drain liquidity.

The USD is broadly weaker across the board, with the various USD indices down in the order of 0.3-0.5%. The Swedish Krona is the best performing, up 1.4% after a more hawkish than expected policy statement by the Riksbank, with 2 out of the 6 voters calling for an earlier tightening. GBP was supported after Saunders, a known hawk and one of the three that voted for a rate hike at the last BoE meeting, said that the central bank needed to raise rates faster than the market expects. Also helping GBP was ITV's Peston, a veteran British political reporter, who cited government insiders in saying that PM May's Brexit plan is the "softest possible exit". He outlined some of May's plans to support his case.

NZD/AUD is steady around 0.9150, after a temporary lurch down to as low as 0.9097 after the local close. The RBA's statement came and went with little change to policy guidance and little market reaction. The NZD is modestly higher on the other crosses.

The S&P500 closed early ahead of the Independence Day holiday. While it spent most of the session in positive territory, it lurched down in the last hour of trading to be down 0.5% for the day. A Chinese court temporarily banned chip sales of US tech company Micron Technology, ruling in favour of a Taiwanese competitor. While the case was part of a broader dispute between the two companies, the announcement came soon after the US moved to block China Mobile from entering the US market on national security grounds, so these developments fuelled speculation that the decisions were part of the tit-for-tat trade war. China's customs agency unexpectedly issued trade data that showed growth in exports to the US slowing. This might be seen as signal China is trying to send to the US ahead of Trump's final sign-off of tariffs at the end of the week.

The yield on US 10-year Treasuries slid 5bps from as high as 2.88% to 2.83%, with the move attributed to the turnaround in oil prices and the equity market. WTI crude made a fresh multi-year high of \$75.27 before plunging 3% on headlines that Saudi Arabia agreed to US demands

to pump more oil and perhaps some closing of speculative long positions ahead of the US holiday. NZ rates faced downside pressure yesterday, with the 10-year swap rate closing below 3% for the first time since November 2016 at 2.9975%.

The US holiday tonight should make for relatively uneventful trading over the next 24 hours.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance, \$m	May	1200	977	13:30
AU Retail sales (m/m%)	May	0.3	0.4	13:30
CH Caixin PMI services	Jun	52.7	52.9	13:45
UK Markit services PMI	Jun	54.0	54.0	20:30

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**					
Indicative overnight ranges (*)				Other FX		Major Indices			Price					
	Last	% Day	Low	High	Last	% Day			Last	Net Day				
NZD	0.6754	+0.6	0.6691	0.6758	CHF	0.9920	-0.2	S&P 500	2,713	-0.5	11.7	Oil (Brent)	77.77	+0.6
AUD	0.7384	+0.6	0.7335	0.7404	SEK	8.840	-1.4	Dow	24,175	-0.5	12.5	Oil (WTI)	74.19	+0.3
EUR	1.1654	+0.1	1.1627	1.1673	NOK	8.138	-0.4	Nasdaq	7,503	-0.9	22.8	Gold	1254.4	+1.0
GBP	1.3191	+0.4	1.3129	1.3207	HKD	7.845	+0.0	Stoxx 50	3,406	+1.0	-2.4	HRC steel	920.0	+1.1
JPY	110.58	-0.3	110.51	111.12	CNY	6.643	-0.4	FTSE	7,593	+0.6	2.9	CRB	197.5	-0.0
CAD	1.3146	-0.3			SGD	1.365	-0.3	DAX	12,349	+0.9	-1.0	Wheat Chic.	491.0	+2.2
NZD/AUD	0.9147	-0.0			IDR	14,397	+0.0	CAC 40	5,317	-0.0	2.3	Sugar	11.39	-1.5
NZD/EUR	0.5795	+0.4			THB	33.15	-0.1	Nikkei	21,786	-0.1	8.8	Cotton	84.54	-0.1
NZD/GBP	0.5120	+0.2			KRW	1,119	-0.1	Shanghai	2,787	+0.4	-12.4	Coffee	111.9	+0.3
NZD/JPY	74.69	+0.3			TWD	30.55	+0.1	ASX 200	6,210	+0.5	7.4	WM powder	2930.0	-7.0
NZD/CAD	0.8879	+0.3			PHP	53.41	+0.0	NZX 50	9,054	+1.2	18.8	Australian Futures		
NZ TWI	72.47	+0.2										3 year bond	97.94	0.00
												10 year bond	97.41	0.02
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	2.79	2.91	USD	2.83	-0.04	NZGB 6 05/15/21	1.90	-0.02	1 year	2.06	0.00	
AUD	1.50	2.08	2.07	2.78	AUD	2.62	0.02	NZGB 5 1/2 04/15/23	2.12	-0.02	2 year	2.14	0.00	
NZD	1.75	1.98	2.14	3.00	NZD	2.59	-0.04	NZGB 2 3/4 04/15/25	2.41	-0.03	5 year	2.53	-0.01	
EUR	0.00	0.06	-0.18	0.86	GER	0.29	-0.01	NZGB 4 1/2 04/15/27	2.59	-0.04	7 year	2.76	-0.01	
GBP	0.50	0.68	1.01	1.49	GBP	1.24	-0.01	NZGB 3 04/20/29	2.78	-0.04	10 year	3.00	-0.01	
JPY	-0.07	-0.04	0.04	0.25	JPY	0.03	0.01	NZGB 3 1/2 04/14/33	2.95	-0.05	15 year	3.26	-0.01	
CAD	1.25	1.17	2.23	2.53	CAD	2.13	-0.04	NZGB 2 3/4 04/15/37	3.10	-0.05				

* 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 06:51

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.