

5 June 2018



Events Round-Up

UK: Markit manufacturing PMI, May: 54.4 vs. 53.5 exp.
US: Change in nonfarm payrolls (k), May: 223 vs. 190 exp.
US: Unemployment rate (%), May: 3.8 vs. 3.9 exp.
US: Average hourly earnings (y/y%), May: 2.7 vs. 2.6 exp.
US: ISM manufacturing, May: 58.7 vs. 58.2 exp.
AU: Retail sales (m/m%), Apr: 0.4 vs. 0.3 exp.
UK: Markit construction PMI, May: 52.5 vs. 51.5 exp.

Good Morning

Markets have brushed off increased US trade tensions and begin the week with positive risk sentiment, helping to support the AUD and NZD, while global bond rates edge higher.

After the Queen's Birthday holiday yesterday, locals will wake up to see the NZD trading higher since Friday's NZ 5pm close against all majors except for the AUD. The NZD is about ½% higher against USD, EUR and CAD, barely higher against GBP and over 1% higher against JPY. NZD/AUD is about 0.7% softer.

Friday night saw the release of stronger than expected US labour market and manufacturing ISM data, including a fall in unemployment rate to an 18-year low of 3.8% and slightly higher wage inflation. All this suggests the US economy is still growing quite nicely and wage inflation remains moderate enough to keep the Fed on a gradual tightening path. UK PMI data for both manufacturing and construction were stronger than expected, as was Australian retail sales data yesterday.

Against that positive macroeconomic backdrop, risk sentiment is positive, with equity markets higher and bond rates higher, ignoring the negative trade-talk developments since the weekend. After Friday's 1.1% gain in the S&P 500, the index has tacked on another 0.4%, talking it to its highest level since early March. US 10-year Treasuries are up 3bps to 2.93% for the day, and closer to 6bps higher since the NZ local close on Friday, with the combination of the stronger US jobs data and positive risk appetite doing the damage. Italian political risks continue to fade from market pricing, with Italy's 10-year rate down 14bps to 2.50% and German bunds further unwinding their recent rally, seeing the 10-year rate up 4bps to 0.41%.

Over the weekend, G7 finance ministers (excluding the US) issued a formal statement expressing their "unanimous concern and disappointment" regarding the US tariffs on imported steel and aluminium. China followed, saying it wouldn't abide by any agreement to buy more US products without assurances that the country wouldn't go ahead with plans to hit it with tariffs on \$50b on Chinese imports. At the end of the week trade tensions will come to a head, with Trump facing G7 leaders, and he will no doubt face more animosity towards his protectionist trade policies. Trump probably looks forward to the hostilities, with another three trade-related tweets overnight that suggest he's in no mood to change his position.

With AUD at the top of the leaderboard, the market is taking the verbal spat on trade in its stride and is focused more on the positive global backdrop. Positive Australian retail sales data and anticipation of a healthy Q1 GDP release this week were supporting factors. AUD is trading around the 0.7650 mark, its highest level in over a month. The NZD hasn't managed to keep pace and has spent most of the past 12 hours trading just below the 0.92 mark. Of the commodity currencies, the CAD has lagged, not helped by the escalation of US-Canada trade tensions and WTI oil falling another couple of percent to below \$65. NZD/CAD is at 0.91 after trading as low as 0.88 just a few weeks ago.

NZD/USD is trading around 0.7040, a further recovery from the depths of its mid-April to mid-May selloff. Our short-term fair value estimate has been stuck in a 0.71-0.72 zone through that period, suggesting that the NZD didn't deserve to trade sub-0.70 for very long. As long as US trade tensions don't completely blow up this weekend, we should be able to hold onto those gains.

Higher risk appetite is doing JPY no favours, with NZD/JPY up 1% for the day to 77.2. GBP has also been soft overnight, with a focus back on EU-UK Brexit negotiations. The EU Withdrawal Bill will return to the House of Commons on 12 June, ahead of the next EU summit on 28 June, and as far as I can tell no progress has been made on the thorny Irish border issue. While NZD/GBP is up 1% to 0.5285 for the day, this is simply a recovery from the fall seen on Friday night. NZD/EUR is trading above 0.60, to levels not seen since January, more driven by NZD strength than EUR weakness over the last few trading days.

In the day ahead, Australian balance of payments data will provide more clues about what to expect for the more

important GDP release tomorrow, while the RBA's policy statement at 4:30 should pass with little reaction, as the Bank remains decisively neutral. We expect fairly flat pricing at tonight's GDT dairy auction, while the market will be more interested in the US non-manufacturing ISM release, which is expected to tick higher.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Current account bal (\$m)	Q1	-10	-14	13:30
AU	Net exports of GDP (% contrib.)	Q1	0.5	-0.5	13:30
CH	Caixin PMI services	May		52.9	13:45
AU	RBA cash rate target (%)	Jun	1.5	1.5	16:30
UK	Markit/CIPS UK services PMI	May	53.0	52.8	20:30
EC	Retail sales (y/y%)	Apr	1.7	0.8	21:00
NZ	GDT dairy auction avg winning price			3637	
US	ISM non-manf. composite	May	57.6	56.8	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	0.7036	+0.8	0.7002	0.7048	S&P 500	2,746	+0.4	12.6	Oil (Brent)	75.28	-2.0
AUD	0.7651	+1.1	0.7610	0.7666	Dow	24,792	+0.6	16.9	Oil (WTI)	64.76	-1.6
EUR	1.1697	+0.3	1.1675	1.1745	Nasdaq	7,597	+0.6	20.5	Gold	1293.1	-0.1
GBP	1.3319	-0.2	1.3295	1.3399	Stoxx 50	3,470	+0.5	-3.4	HRC steel	914.0	-1.1
JPY	109.69	+0.1	109.37	109.75	FTSE	7,741	+0.5	2.6	CRB	198.9	-1.4
CAD	1.2932	-0.1			DAX	12,771	+0.4	-0.4	Wheat Chic.	522.8	-3.0
NZD/AUD	0.9196	-0.3			CAC 40	5,473	+0.4	2.4	Sugar	11.90	-5.0
NZD/EUR	0.6015	+0.4			Nikkei	22,476	+1.4	11.4	Cotton	92.10	-1.3
NZD/GBP	0.5283	+1.0			Shanghai	3,091	+0.5	0.0	Coffee	121.5	-1.1
NZD/JPY	77.18	+0.9			ASX 200	6,026	+0.6	4.7	WM powder	3215.0	-1.2
NZD/CAD	0.9099	+0.7			NZX 50	8,636	-0.3	15.1	Australian Futures		
NZ TWI	73.87	-0.2							3 year bond	97.785	-0.05
									10 year bond	97.25	-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	Last	Last			
USD	1.75	2.32	2.77	2.99	USD	2.93	0.03	NZGB 6 05/15/21	2.01	0.02	1 year	2.09	0.00
AUD	1.50	2.00	2.13	2.93	AUD	2.73	0.03	NZGB 5 1/2 04/15/23	2.29	0.02	2 year	2.23	0.02
NZD	1.75	2.01	2.23	3.14	NZD	2.75	0.02	NZGB 2 3/4 04/15/25	2.56	0.02	5 year	2.65	0.02
EUR	0.00	0.06	-0.14	0.95	GER	0.42	0.03	NZGB 4 1/2 04/15/27	2.75	0.02	7 year	2.88	0.02
GBP	0.50	0.62	0.98	1.54	GBP	1.30	0.02	NZGB 3 04/20/29	2.91	0.02	10 year	3.12	0.03
JPY	-0.07	-0.03	0.05	0.27	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.11	0.02	15 year	3.39	0.03
CAD	1.25	1.17	2.27	2.65	CAD	2.27	0.02	NZGB 2 3/4 04/15/37	3.27	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 06:43

Source: Bloomberg

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