

6 August 2018



Events Round-Up

AU: Retail sales (m/m%), Jun: 0.4 vs. 0.3 exp.
AU: Real retail sales (q/q%), Q2: 1.2 vs. 0.8 exp.
CH: Caixin PMI services, Jul: 52.8 vs. 53.5 exp.
UK: Markit services PMI, Jul: 53.5 vs. 54.7 exp.
US: Trade balance (\$b), Jun: -46.3 vs. -46.5 exp.
US: Change in nonfarm payrolls (k), Jul: 157 vs. 192 exp.
US: Unemployment rate (%), Jul: 3.9 vs. 3.9 exp.
US: Average hourly earnings (m/m%), Jul: 0.3 vs. 0.3 exp.
US: Average hourly earnings (y/y%), Jul: 2.7 vs. 2.7 exp.
US: ISM non-manf. composite, Jul: xx vs. 58.6 exp.

Good Morning

Currency movements were modest on Friday, although the AUD seemed to be a beneficiary of the PBoC's move to rein in the yuan's depreciation. US rates were slightly lower following the key employment report.

On Friday, China remained in the spotlight, given the ramp up in trade tensions towards the end of last week. CNY weakened to its lowest level in nearly 15 months, with USD/CNY up through 6.89. A few hours later the PBoC raised the reserve requirement on FX forwards trading to 20%, a signal that it was getting a little uncomfortable with speculators seeing the currency as a one-way bet. The increased reserve requirement will make it more expensive to bet against the currency.

The announcement triggered an immediate appreciation of the yuan, seeing USD/CNY end the week just under the 6.83 level. The move supported the NZD and AUD, particularly the latter. Earlier in the session the NZD had reached a low of 0.6720 and after the announcement it reached as high as 0.6766, before closing the week around 0.6745, well within the tight trading range seen over the past month or so. AUD recovered back up through 0.74, seeing NZD/AUD fall 0.5% to 0.9110, still stuck within the 0.91-92 range it has spent most of the time since the end of June.

China hit back against Trump's proposed increased tariff rate of 25% on \$200b of Chinese imports. China's State Council released a list of \$60b worth of US goods to hit with tariffs. The planned levies range from 5% to 25%, with the date of implementation "subject to the actions of the US". If enacted, this will see tariffs on the majority of its US imports. Within hours, Trump's economic adviser

Kudlow promised Trump wouldn't back down until China changed its trade practices. In a TV interview he said "Don't underestimate President Trump's determination to follow through". And through the weekend, Trump has tweeted about the virtues of imposing tariffs and how well the recent tariffs imposed have worked so far. It's hard to see Trump backing down without China opening up talks and making some concessions.

How these trade tensions develop remain a key factor for the path of the NZD. The last few months have seen a weaker NZD against a backdrop of our risk appetite index reaching a 10-week high, driven by the VIX falling to a historically low 11-handle and narrower credit spreads. US-China trade tensions are at the heart of the poor NZD performance. Imposition of Trump's tariff plan in early September would see the NZD reaching fresh lows, while a back-off would likely see a relief rally.

On the economic front, the change in US non-farm payrolls was weaker than expected, but this was more than made up with positive revisions. Both the unemployment rate and wages figures were in line, supporting the Fed's gradual tightening plans. It seems that the market was geared up for a positive surprise, which meant that US Treasury rates fell slightly after the report. The modest fall in rates was sustained when the non-manufacturing ISM index fell to an 11-month low and was much weaker than expected, although the employment component increased and the level of the composite index remained historically high. The 10-year rate closed on its low for the session of 2.95%, down 4bps for the day.

While the news on the trade war and employment report caused a little intraday volatility, the key major currencies showed modest movements for the day overall. GBP fell to as low as 1.2976 before closing the week just above 1.30. EUR had a push through 1.16, but ended the week close to 1.1570. USD/JPY ended the day down 0.4% to 111.25.

On paper, it's a quiet start to the week, with little on the economic calendar, but we'll be watching China and trade talk developments very closely. This week sees policy announcements by the RBA (Tuesday) and RBNZ (Thursday). US CPI data at the end of the week is the most market sensitive economic report on the calendar.

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Coming Up

	Period	Cons.	Prev.	NZT
GE Factory orders (m/m%)	Jun	-0.5	2.6	18:00

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.6744	-0.1	0.6721	0.6766	S&P 500	2,840	+0.5	14.7	Oil (Brent)	73.21	-0.3
AUD	0.7404	+0.6	0.7348	0.7412	Dow	25,463	+0.5	15.3	Oil (WTI)	68.49	-0.7
EUR	1.1568	-0.1	1.1560	1.1611	Nasdaq	7,812	+0.1	23.0	Gold	1214.2	+0.3
GBP	1.3001	-0.1	1.2976	1.3043	Stoxx 50	3,482	+0.4	-0.7	HRC steel	894.0	-0.1
JPY	111.25	-0.4	111.10	111.87	FTSE	7,659	+1.1	2.0	CRB	193.2	+0.3
CAD	1.2991	-0.2			DAX	12,616	+0.6	2.6	Wheat Chic.	579.8	-0.5
NZD/AUD	0.9109	-0.6			CAC 40	5,479	+0.3	5.3	Sugar	10.85	+2.5
NZD/EUR	0.5830	+0.2			Nikkei	22,525	+0.1	12.9	Cotton	88.67	-0.9
NZD/GBP	0.5187	+0.1			Shanghai	2,740	-1.0	-16.0	Coffee	107.8	+1.0
NZD/JPY	75.03	-0.5			ASX 200	6,235	-0.1	9.0	WM powder	2980.0	+0.0
NZD/CAD	0.8761	-0.3			NZX 50	8,865	+0.2	14.4	Australian Futures		
NZ TWI	73.06	-0.3							3 year bond	97.865	0.01
									10 year bond	97.30	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	2.87	3.02	USD	2.95	-0.04	NZGB 6 05/15/21	1.92	-0.01	1 year	2.01	-0.02
AUD	1.50	1.97	2.12	2.88	AUD	2.73	-0.00	NZGB 5 1/2 04/15/23	2.16	-0.01	2 year	2.12	-0.02
NZD	1.75	1.91	2.12	3.05	NZD	2.64	-0.01	NZGB 2 3/4 04/15/25	2.47	-0.02	5 year	2.55	-0.02
EUR	0.00	0.06	-0.14	0.93	GER	0.41	-0.05	NZGB 4 1/2 04/15/27	2.64	-0.01	7 year	2.79	-0.02
GBP	0.75	0.81	1.12	1.59	GBP	1.33	-0.05	NZGB 3 04/20/29	2.80	-0.01	10 year	3.05	-0.02
JPY	-0.07	-0.03	0.05	0.33	JPY	0.11	-0.02	NZGB 3 1/2 04/14/33	2.98	-0.01	15 year	3.30	-0.02
CAD	1.50	1.17	2.44	2.74	CAD	2.35	-0.01	NZGB 2 3/4 04/15/37	3.12	-0.00			

* 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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