

6 June 2018



Events Round-Up

AU: Current account bal (\$b), Q1: -10.5 vs. -9.9 exp.

AU: Net exports of GDP (% contrib.), Q1: 0.3 vs. 0.5 exp.

CH: Caixin PMI services, May: 52.9 vs. 52.9 exp.

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

UK: Markit/CIPS services PMI, May: 54.0 vs. 53.0 exp.

NZ: GDT dairy auction avg winning price: -1.3%

US: ISM non-manf. Composite, May: 58.6 vs. 57.7 exp.

Good Morning

There has been plenty of news to digest but market movements have been well-contained, with flat US equities and global rates down a little. In currency markets, GBP has outperformed, while the NZD is flat.

The NZD has traded in about a 40pip range over the past 24 hours, dipping as low as 0.6998 this morning, but now back to the 0.7030 mark which it has hovered around for much of the session. NZ-specific news has been scant but getting our attention yesterday was the government's announcement that it will set up a panel charged with redesigning the country's industrial relations regime to implement "Fair Pay Agreements". If it goes down the path that the government wants, then it could add to wage inflation pressure if there is a return to the old days of centralised wage bargaining. This would be, of course, in addition to the impost of a 20+% increase in minimum wages ahead already signalled. Consider it a risk, rather than likelihood at this stage, but policies like this can only serve to keep business confidence depressed as the new government makes its mark.

The GDT dairy auction showed average prices fell by 1.3%, within the ballpark of expectations, with whole milk powder down 1.1%.

GBP is the strongest performing major currency, getting a boost after the UK PMI Services index, widely seen as a much more important indicator than the manufacturing index, bounced back stronger than expected in May. GBP is up 0.6% to around the 1.34 mark. The positive data print more than offset lingering bad news on Brexit. UK businesses told PM May to get on with taking key Brexit decisions as companies start putting their contingency plans in place. However, uncertainty is likely to persist, with the FT noting the PM has shelved Brexit Blueprint plans ahead of the 28 June EU summit, with indications the plans will not be formalised until the October summit.

EUR headed south as newly elected Italian PM Conte's maiden speech didn't go down too well with the markets. He pledged that his government will push through policies like curbs on immigration, a "citizen's income for the poor", a (lower) two-tiered flat tax structure and higher fiscal spending – policies that will add to the fiscal deficit and risk breaching EU budget rules. Italy's 10-year rate rose by 27bps to 2.76% while Germany's 10-year rate fell by 5bps to 0.36%. EUR fell to around 1.1650 but has since recovered more than its losses, after Bloomberg reported that according to unnamed officials, the Governing Council is likely to treat the ECB's 14 June policy meeting as an opportunity to debate winding down bond-buying. The meeting could conclude with an announcement on when it intends to cease asset purchases. One official said that Draghi may use his press conference to signal an announcement will come in July. None of this is really news and it matches consensus expectations, but the reminder that QE policy was drawing to close was enough to send EUR back up through 1.17. NZD/EUR currently sits close to 0.60.

In US economic news, the JOLTS labour market report showed signs of further labour market tightening, with the number of available workers per open position being the lowest since January 1970. The ISM non-manufacturing index recovered by more than expected in May. The detail of the report showed rising capacity constraints, higher inflationary pressure and some concern about the tariffs on steel and aluminium causing supply disruptions and higher costs. These releases had little impact on the market. USD indices are flat for the day, while the US 10-year rate is 3bps lower, likely dragged lower by falling German rates.

In trade-war news, according to the WSJ, China offered to purchase nearly \$70 billion of US farm and energy products if the Trump administration abandons threatened tariffs, according to people briefed on the latest negotiations with American trade officials. Trump's economic advisor Kudlow said that the President doesn't plan to withdraw from NAFTA but is seriously considering separate trade negotiations with Canada and Mexico. Senate majority whip Cornyn indicated that time had run out to approve a new NAFTA deal in 2018 and is now something to consider for 2019.

CAD has been whipsawed a bit on this NAFTA news alongside a swing in oil prices. The Trump administration was said to have asked Saudi Arabia and allied producers to raise production by 1 million barrels a day amid an

increase in retail US gasoline prices to three-year highs. That saw oil prices fall about \$1, but they have since recovered. NZD/CAD has made further gains and is up 0.3% 0.9120.

The AUD has been on the soft side after its strong performance earlier in the week. The RBA announcement was the non-event expected, with the RBA seemingly content to keep rates on hold until it sees progress on unemployment falling and on wages lifting, with the concluding post-meeting statement paragraph unchanged. AUD briefly traded below 0.76 this morning and NZD/AUD sits 0.4% higher at 0.9230. The market expects to see a strong Australian Q1 GDP release today of 0.9% q/q.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Building work put in place (q/q%)	Q1	0.5	1.4	10:45
AU	GDP (q/q%)	Q1	0.9	0.4	13:30
US	Trade balance (\$b)	Apr	-49	-49	00:30
NZ	QV house prices (y/y%)	May		7.6	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	0.7030	+0.0	0.6998	0.7045	CHF	0.9843	-0.3		S&P 500	2,749	+0.1	12.9	Oil (Brent)	75.18	-0.1
AUD	0.7616	-0.4	0.7595	0.7649	SEK	8.749	-0.1		Dow	24,831	+0.1	17.2	Oil (WTI)	65.44	+1.1
EUR	1.1717	+0.2	1.1653	1.1732	NOK	8.110	-0.1		Nasdaq	7,639	+0.4	21.3	Gold	1298.0	+0.4
GBP	1.3396	+0.6	1.3302	1.3409	HKD	7.847	+0.0		Stoxx 50	3,457	-0.4	-3.4	HRC steel	906.0	-1.9
JPY	109.73	-0.1	109.47	110.00	CNY	6.406	-0.0		FTSE	7,687	-0.7	2.1	CRB	199.2	+0.2
CAD	1.2969	+0.3			SGD	1.335	-0.1		DAX	12,787	+0.1	-0.3	Wheat Chic.	527.5	+0.9
NZD/AUD	0.9231	+0.4			IDR	13,880	+0.0		CAC 40	5,461	-0.4	2.9	Sugar	12.02	+1.0
NZD/EUR	0.6000	-0.1			THB	31.93	-0.2		Nikkei	22,540	+0.3	12.8	Cotton	89.84	-2.5
NZD/GBP	0.5248	-0.6			KRW	1,071	-0.1		Shanghai	3,114	+0.7	0.4	Coffee	119.5	-1.8
NZD/JPY	77.14	-0.1			TWD	29.81	-0.0		ASX 200	5,995	-0.5	5.8	WM powder	3210.0	-0.2
NZD/CAD	0.9117	+0.3			PHP	52.43	-0.3		NZX 50	8,757	+1.4	16.8	Australian Futures		
NZ TWI	73.84	+0.0											3 year bond	97.81	0.02
													10 year bond	97.28	0.04

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	1.75	2.31	2.75	2.97	USD	2.92	-0.03	NZGB 6 05/15/21	2.02	0.01	1 year	2.09	0.00
AUD	1.50	2.02	2.10	2.90	AUD	2.73	-0.01	NZGB 5 1/2 04/15/23	2.31	0.02	2 year	2.23	0.00
NZD	1.75	2.01	2.22	3.14	NZD	2.79	0.04	NZGB 2 3/4 04/15/25	2.59	0.03	5 year	2.67	0.02
EUR	0.00	0.06	-0.15	0.94	GER	0.37	-0.05	NZGB 4 1/2 04/15/27	2.79	0.04	7 year	2.91	0.03
GBP	0.50	0.62	0.98	1.52	GBP	1.28	-0.01	NZGB 3 04/20/29	2.96	0.04	10 year	3.16	0.04
JPY	-0.07	-0.02	0.05	0.27	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.15	0.04	15 year	3.43	0.04
CAD	1.25	1.17	2.26	2.64	CAD	2.25	-0.03	NZGB 2 3/4 04/15/37	3.32	0.04			

* 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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