

8 August 2018



## Events Round-Up

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

GE: Industrial production, Jun: -0.9 vs. -0.5 exp.

CH: Foreign Reserves, Jul: 3118 vs. 3107 exp.

NZ: GDT dairy auction avg winning price: 0.0%

## Good Morning

A more positive day for the Chinese yuan dragged the AUD higher but the NZD has been left behind and is flat, even with higher risk appetite, with the S&P500 approaching a fresh high and slightly higher global bond yields.

Market volatility remains suppressed, but amidst the lack of pulse a positive turnaround in the yuan stands out. An hour or so after the NZD close, USD/CNY began to fall from around 6.86 and has ended up around 6.83. The move coincided with broadly based weakness in the USD (since reversed) so we can't be sure of the actual trigger. The offshore yuan has appreciated by 0.6% for the session, which is bigger than any of the G10 currency movements for the day. China's Shanghai equity market index rose by 2.7%, its biggest move in more than two years.

Driving the move was word that the PBoC had met with the local banks. Bloomberg reports that at the meeting the PBOC urged banks to prevent any "herd behaviour" and momentum-chasing moves in the currency market. The banks suggested that the PBOC could use the "counter-cyclical factor" to guide market expectations for the yuan. It's a signal that the PBoC is alert to the risks facing the yuan and doesn't want to see the currency as a one way bet.

China foreign reserves data for July showed a modest increase that was beyond all estimates in the market, suggesting that the PBoC hasn't been burning through reserves to support the yuan. However, the WSJ reports on traders seeing the PBoC intervening aggressively in the lower-profile FX forward swaps market to help contain the depreciation of the yuan. The stronger forward exchange rate as a result of the PBoC actions provides a warning signal for those who want to short the yuan aggressively.

The positive turnaround in the onshore and offshore yuan gave a boost to the AUD, seeing it rise 50pips or so from 0.7390 to 0.7440, where it met some resistance. Earlier, the RBA policy announcement came and went with little

reaction, with nothing in the statement to sway the market from the view that policy will be on hold for an extended period of time.

The NZD underperformed as the yuan and AUD lifted. The Kiwi got to as high as 0.6755 before the move fully unwound and this morning it sits flat for the day at 0.6730. That NZD underperformance sees NZD/AUD 0.5% lower at 0.9070, breaking through technical support and down to a level last seen at the end of January. The next support level is around 0.90-0.9030. We've seen over the past four years that brief excursions below 0.90 have represented great buying levels for the cross. The latest GDT dairy auction showed flat pricing, as widely expected.

In other currencies, EUR has modestly outperformed, seeing a 0.3% lift to 1.1585 and seeing NZD/EUR approach 0.58. Germany industrial production in June was weaker than surveyed market expectations, but poor factory orders data a day earlier forewarned of a potentially even weaker result, so one might actually consider the modest miss as a positive surprise. GBP has nudged down to fresh lows as Brexit risks overhang the market, with the probability of a "no deal" outcome rising over recent weeks.

USD/JPY had a peek below 111 but is back flat for the session around 111.50. Reuters reported that the Bank of Japan had considered raising interest rates earlier this year, before market turbulence in January and weak inflation data scuttled the plan.

Against a backdrop of stronger risk appetite, with the S&P500 up for a fourth consecutive day and within 10 points of its January high, US Treasury yields are higher across the curve. The 10-year rate has moved steadily higher throughout the session and is up at its highs for the day at 2.97%. NZ rates were slightly lower across the curve yesterday, a reflection of the previous night's move in Treasuries.

There are a few bits and pieces on the economic calendar today but nothing that looks to be potentially market moving. Focus turns to the RBNZ's MPS tomorrow morning and, while there's interest in how the RBNZ responds to higher near-term inflation pressures and downside risk to the growth outlook, the net result should be little change in policy guidance.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Home loans (m/m%)	Jun	0.0	1.1	13:30
NZ RBNZ 2Yr inflation expectations	Q3		2.01	15:00
AU RBA Governor Lowe speaks in Sydney				15:05
CH Imports (y/y%)	Jul	16.9	14.1	
CH Exports (y/y%)	Jul	10	11.3	
US Fed's Barkin Speaks in Virginia				00:45

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	0.6733	+0.0	0.6727	0.6755	CHF	0.9953	-0.2		S&P 500	2,861	+0.4	15.3	Oil (Brent)	74.56	+1.1
AUD	0.7422	+0.5	0.7393	0.7440	SEK	8.919	-0.2		Dow	25,662	+0.6	16.0	Oil (WTI)	69.10	+0.1
EUR	1.1595	+0.4	1.1552	1.1608	NOK	8.206	-0.6		Nasdaq	7,889	+0.4	23.6	Gold	1208.7	+0.0
GBP	1.2936	-0.1	1.2924	1.2974	HKD	7.850	+0.0		Stoxx 50	3,504	+0.6	0.0	HRC steel	892.0	+0.0
JPY	111.42	+0.0	110.99	111.48	CNY	6.831	-0.3		FTSE	7,718	+0.7	2.5	CRB	194.4	+0.3
CAD	1.3067	+0.5			SGD	1.365	-0.3		DAX	12,648	+0.4	3.2	Wheat Chic.	590.0	-1.2
NZD/AUD	0.9072	-0.5			IDR	14,442	-0.2		CAC 40	5,521	+0.4	6.0	Sugar	10.88	-0.9
NZD/EUR	0.5807	-0.3			THB	33.23	-0.3		Nikkei	22,663	+0.7	13.3	Cotton	88.22	-0.0
NZD/GBP	0.5205	+0.1			KRW	1,124	-0.0		Shanghai	2,779	+2.7	-15.3	Coffee	109.1	+0.0
NZD/JPY	75.02	+0.0			TWD	30.60	-0.1		ASX 200	6,254	-0.3	8.9	WMI powder	2990.0	+0.3
NZD/CAD	0.8798	+0.5			PHP	52.96	+0.1		NZX 50	8,876	-0.3	14.0	<b>Australian Futures</b>		
NZ TWI	72.74	-0.3											3 year bond	97.87	0.00
													10 year bond	97.31	0.00
<b>Interest Rates</b>															
	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	Last				
USD	2.00	2.34	2.88	3.04	USD	2.97	0.03	NZGB 6 05/15/21	1.88	-0.02	1 year	1.99	-0.01		
AUD	1.50	1.97	2.12	2.88	AUD	2.66	-0.07	NZGB 5 1/2 04/15/23	2.11	-0.02	2 year	2.11	-0.00		
NZD	1.75	1.90	2.11	2.99	NZD	2.59	-0.02	NZGB 2 3/4 04/15/25	2.42	-0.02	5 year	2.51	-0.01		
EUR	0.00	0.06	-0.14	0.93	GER	0.41	0.02	NZGB 4 1/2 04/15/27	2.59	-0.02	7 year	2.75	-0.01		
GBP	0.75	0.81	1.11	1.59	GBP	1.33	0.02	NZGB 3 04/20/29	2.74	-0.02	10 year	3.00	-0.02		
JPY	-0.07	-0.04	0.05	0.34	JPY	0.12	0.01	NZGB 3 1/2 04/14/33	2.92	-0.02	15 year	3.25	-0.02		
CAD	1.50	1.17	2.46	2.76	CAD	2.37	0.02	NZGB 2 3/4 04/15/37	3.07	-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 06:53

Source: Bloomberg

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