

8 June 2018



Events Round-Up

AU: Trade balance (\$m), Apr: 977 vs. 1000 exp.

GE: Factory orders (m/m%), Apr: -2.5 vs. 0.8 exp.

Good Morning

There is currently a risk-off feel to markets, with focus on emerging markets and this time Brazil being under the pump. Under the circumstances, the NZD has held up relatively well, against a backdrop of softer equity markets and lower US Treasury yields.

Brazil's Real is under significant pressure for the third consecutive day despite intervention to support the currency by its central bank, and not helped by the respected Mohamed El-Erian warning that the nation may be the next emerging-market domino to fall after Turkey and Argentina. The currency is down 5% this week, extending its fall since late-January to 20%.

We've been monitoring the JPM EM currency index closely over recent weeks, watching its steady decline. Much of the downward pressure came amidst the broadly-based recovery in the USD from mid-April. Emerging markets tend to have USD-denominated debt as investors are reluctant to lend money in local EM currency so USD strength acts like a tightening in financial conditions, putting pressure on EM economies. But while the USD's recovery looks over for now, EM currencies still seem to be falling. Against that backdrop, the NZD is holding up well and sits this morning at 0.7030, the same level it has been at this time of day for the past four days and the range over the past 24 hours has been barely more than 30pips. Other commodity currencies have fared worse overnight, with both the AUD and CAD underperforming. NZD/AUD is back up to 0.9225, now slightly above where it sat before the stronger Australian GDP result on Wednesday.

The focus on EM might have been behind a sharp fall in US 10-year Treasury yields this morning. It fell by 6bps in a minute to a low of 2.884% as a big trade went through the futures and options markets. It recovered sharply to 2.93%, but still over 4bps lower since the NZ close. This spilled over into JPY, which dipped below 109.50 at the time. All this happened not long after Trump said that there would be no deal with North Korea if it doesn't give up its nuclear programme, but we're not convinced that that was the reason behind the market volatility at the time.

In other Trump-related news, going against the advice of key members of his own party, Trump offered Chinese company ZTE Corp a lifeline, allowing it to continue in business after paying a \$1.4b fine and requiring US enforcement officers inside the Chinese company to monitor its actions. At the margin, this eases US-China trade tensions, with no doubt expectations of China offering a quid pro quo in return.

Economic news has been scant but German factory orders for April came in much weaker than expected, extending their slide for the fourth month in a row. However, this wasn't seen to change the course of ECB monetary policy, where speculation continues to reign of another tweak next week to the Bank's official policy stance, setting the scene for an end to the quantitative easing programme. EUR weakness post the data was fleeting, and the common currency reached an overnight high of 1.1840, continuing to show signs of recovery from the 1.1510 nadir at the height of angst around Italy recently. NZD/EUR continues to edge away from the 0.60+ level seen earlier this week and sits around 0.5950. European bond rates are also higher across the board, with German and UK rates up around 2-3bps, which makes the US Treasury yield fall overnight more remarkable.

GBP trading has been whippy, trading in a 100pip range, as rumours swirled of the potential resignation of UK Brexit secretary Davis. He seriously objected to PM May's plan to tie the UK into EU customs rules for an open-ended period of time after the country leaves the bloc next March. A political crisis was averted with yet another fudge on the Irish border issue. PM May has amended the back-stop plan in the case of no agreement being reached for a "temporary customs arrangement" until a longer term trade deal is in place. This saga has a long way to run yet, with EU officials still said to be dismissive of the UK plan.

NZ rates were higher across the curve yesterday, fuelled by upward pressure on global rates. The 10-year swap and government rates were up in the order of 6bps, still less than the 8bps movement seen in Australian 10-year rates. A downward bias should prevail today after the movement in US rates and Australian bond futures overnight.

Eyes turn to the G7 leaders meeting this weekend, where plenty of argy-bargy can be expected over global trade policy.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
CH Exports (y/y%)	May	11.3	12.9	
CH Imports (y/y%)	May	18.8	21.5	
GE Industrial prod. (m/m%)	Apr	0.3	1.0	18:00
CH PPI (y/y%)	May	3.9	3.4	Sat
CH CPI (y/y%)	May	1.8	1.8	Sat

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	0.7032	-0.0	0.7023	0.7057	CHF	0.9801	-0.6		S&P 500	2,767	-0.2	13.7	Oil (Brent)	77.32	+2.6
AUD	0.7623	-0.6	0.7613	0.7665	SEK	8.687	-0.5		Dow	25,230	+0.4	19.2	Oil (WTI)	65.88	+1.8
EUR	1.1813	+0.3	1.1791	1.1840	NOK	8.049	-0.4		Nasdaq	7,630	-0.7	21.2	Gold	1298.7	+0.1
GBP	1.3427	+0.1	1.3373	1.3472	HKD	7.846	-0.0		Stoxx 50	3,460	-0.0	-2.5	HRC steel	907.0	-0.3
JPY	109.73	-0.4	109.48	110.09	CNY	6.392	+0.1		FTSE	7,704	-0.1	3.0	CRB	199.5	+0.2
CAD	1.2976	+0.2			SGD	1.334	+0.1		DAX	12,811	-0.1	1.1	Wheat Chic.	544.3	+1.3
NZD/AUD	0.9225	+0.6			IDR	13,875	+0.2		CAC 40	5,448	-0.1	3.5	Sugar	11.73	-3.9
NZD/EUR	0.5953	-0.3			THB	32.01	+0.3		Nikkei	22,823	+0.9	14.6	Cotton	94.07	+3.4
NZD/GBP	0.5237	-0.1			KRW	1,069	+0.2		Shanghai	3,109	-0.2	-1.3	Coffee	115.7	-1.9
NZD/JPY	77.16	-0.4			TWD	29.73	-0.0		ASX 200	6,057	+0.5	6.7	WM powder	3155.0	-0.6
NZD/CAD	0.9125	+0.2			PHP	52.51	+0.1		NZX 50	8,900	+1.0	19.3	Australian Futures		
NZ TWI	73.76	+0.1											3 year bond	97.76	0.01
													10 year bond	97.19	0.00
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	2.32	2.78	3.00	USD	2.94	-0.03	NZGB 6 05/15/21	2.07	0.04	1 year	2.09	0.01		
AUD	1.50	2.05	2.12	2.97	AUD	2.84	0.08	NZGB 5 1/2 04/15/23	2.36	0.04	2 year	2.24	0.01		
NZD	1.75	2.00	2.24	3.23	NZD	2.85	0.05	NZGB 2 3/4 04/15/25	2.65	0.04	5 year	2.73	0.04		
EUR	0.00	0.06	-0.11	1.02	GER	0.48	0.02	NZGB 4 1/2 04/15/27	2.85	0.05	7 year	2.98	0.05		
GBP	0.50	0.63	1.04	1.61	GBP	1.40	0.03	NZGB 3 04/20/29	3.03	0.06	10 year	3.23	0.06		
JPY	-0.07	-0.03	0.05	0.27	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.21	0.05	15 year	3.50	0.06		
CAD	1.25	1.17	2.26	2.67	CAD	2.28	-0.03	NZGB 2 3/4 04/15/37	3.37	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 06:47

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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