

9 April 2018



## Events Round-Up

GE: Industrial production (m/m%), Feb: -1.6 vs. 0.2 exp.

US: Chg in nonfarm payrolls (k), Mar: 103 vs. 185 exp.

US: Unemployment rate (%), Mar: 4.1 vs. 4.0 exp.

US: Average hrly earnings (y/y%), Mar: 2.7 vs. 2.7 exp.

CA: Unemployment rate (%), Mar: 5.8 vs. 5.8 exp.

## Good Morning

The US-China verbal war on trade continued on Friday, driving down US equities by more than 2% with only a little spill-over for dollar-bloc currencies and UST yields.

A headline that Trump had instructed his administration to consider imposing tariffs on an additional \$100b of China imports made for a more interesting trading session on Friday than would normally be the case, leading up to the US employment report, which is normally the star of the show. This headline kicked off another war of words between China and the US, a saga that seems likely to drag on in public for weeks and months rather than be resolved quickly in a more gentlemanly fashion behind closed doors.

Chinese Commerce Ministry spokesman Gao Feng said that "China is fully prepared to hit back forcefully and without hesitation". Gao denied that trade negotiations were taking place and that "under such circumstances, it's even more unlikely for the two sides to engage in any kind of negotiations". Key Trump advisors tried to allay investors' fears but Treasury Secretary Mnuchin didn't help with a slip of the tongue acknowledging that "there is the potential of a trade war." In a Sunday interview, Mnuchin tried to back away from that comment saying "but I don't expect it at all" in reference to the potential for a trade war.

Headlines on the growing trade tensions overshadowed the key US employment report, which showed weaker than expected employment growth after the previous month's bumper result and the unemployment rate remaining unchanged rather than ticking lower. Importantly, the wage data were in line and most concluded that the outlook for a tighter labour market, higher wage inflation and more policy tightening hadn't changed.

Fed Chair Powell gave a speech, but didn't say anything

new, and his prepared remarks followed the Fed's official line at last month's FOMC announcement that indicated a gradual path of tighter monetary policy ahead. There was no reference to the escalating trade tensions with China or tightening in financial conditions. In the Q&A Powell said that it was "really too early" to estimate how tariffs will impact the economy.

The ECB's Coeure had more to say on the issue of trade wars, indicating that its risk increases the burden on central banks by dimming global growth prospects. Protectionist sentiment has already "contributed to tighter financial conditions", he said. He later said in a CNBC interview that the ECB can for now look past the market impact of the trade spat as "it all comes against the backdrop of a very strong growth momentum." He noted that the ECB had seen "some uptick" in recent inflation numbers and that ECB rate guidance will gain in importance.

The dollar-bloc currencies were the weakest for the session, with the trade spat and the softer US employment report seeing broad USD weakness but the risk-off tone seeing the NZD, AUD and CAD fall alongside the USD. So for all the headlines on US-China trade tensions, NZD/USD traded in a fairly narrow range and ended the week around 0.7270, little changed for the day and only modestly higher for the week. Unlike equity markets, which have seen increased volatility since Trump's opening gambit on import tariffs for China, the spillover effect for currency markets has been modest. NZD 3-month implied volatility is currently below the average of the past quarter and past year and that those averages are historically low themselves.

GBP, EUR and JPY were all stronger against the USD, seeing modest gains of 0.3-0.6% for the day and NZD crosses down accordingly.

US Treasury yields were lower across the curve with a flattening bias, with the 2-year rate down 4bps and the 10-year rate down 6bps to 2.77%, with lower yields seemingly driven down more by the fall in risk sentiment and US equities associated with the trade spat than the softer employment report. The economic calendar is sparse as the new week begins with focus turning to the US CPI report Wednesday night NZ time. But as noted earlier, this US-China trade spat isn't likely to go away in a hurry so markets will be keeping one eye on their Twitter accounts.

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Coming Up

Nothing of note.

Foreign Exchange								Equities				Commodities**				
Indicative overnight ranges (*)				Other FX				Major Indices				Price				
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day	
NZD	0.7267	-0.2	0.7243	0.7277	CHF	0.9591	-0.5			S&P 500	2,604	-2.2	10.6	Oil (Brent)	67.11	-1.8
AUD	0.7674	+0.0	0.7667	0.7700	SEK	8.392	-0.3			Dow	23,933	-2.3	15.9	Oil (WTI)	62.06	-2.3
EUR	1.2281	+0.3	1.2215	1.2290	NOK	7.831	-0.0			Nasdaq	6,915	-2.3	17.6	Gold	1331.9	+0.6
GBP	1.4092	+0.6	1.3983	1.4105	HKD	7.848	-0.0			Stoxx 50	3,408	-0.6	-2.5	HRC steel	849.0	-1.3
JPY	106.93	-0.4	106.83	107.46	CNY	6.303	+0.2			FTSE	7,184	-0.2	-2.3	CRB	192.3	-0.8
CAD	1.2782	+0.3			SGD	1.316	-0.0			DAX	12,241	-0.5	0.1	Wheat Chic.	488.5	+1.5
NZD/AUD	0.9470	+0.1			IDR	13,778	+0.1			CAC 40	5,258	+0.5	2.4	Sugar	12.34	-0.1
NZD/EUR	0.5917	-0.5			THB	31.28	+0.1			Nikkei	21,568	-0.4	15.6	Cotton	82.54	-0.0
NZD/GBP	0.5157	-0.7			KRW	1,070	+0.9			Shanghai	3,131	-0.2	-4.3	Coffee	117.5	-0.1
NZD/JPY	77.71	-0.6			TWD	29.27	+0.2			ASX 200	5,789	-0.0	-1.3	WM powder	3200.0	+0.0
NZD/CAD	0.9289	+0.1			PHP	52.08	-0.1			NZX 50	8,393	+0.4	15.9	<b>Australian Futures</b>		
NZ TWI	75.11	-0.2												3 year bond	97.85	0.04
														10 year bond	97.35	0.05
<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				
USD	1.75	2.33	2.59	2.80	USD	2.77	-0.06	NZGB 6 05/15/21	2.08	0.00	1 year	2.10	0.01			
AUD	1.50	2.04	2.07	2.83	AUD	2.66	-0.01	NZGB 5 1/2 04/15/23	2.36	0.00	2 year	2.25	0.00			
NZD	1.75	1.98	2.24	3.14	NZD	2.80	0.01	NZGB 2 3/4 04/15/25	2.61	0.00	5 year	2.69	0.00			
EUR	0.00	0.06	-0.15	0.95	GER	0.50	-0.03	NZGB 4 1/2 04/15/27	2.80	0.01	7 year	2.91	0.00			
GBP	0.50	0.75	1.15	1.55	GBP	1.40	-0.02	NZGB 3 04/20/29	3.00	0.01	10 year	3.14	0.01			
JPY	-0.06	-0.03	0.05	0.26	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.19	0.01	15 year	3.39	0.01			
CAD	1.25	1.17	2.16	2.53	CAD	2.14	-0.04	NZGB 2 3/4 04/15/37	3.41	0.01						

\* 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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