

9 August 2018



## Events Round-Up

AU: Home loans (m/m%), Jun: -1.1 vs. 0.0 exp.

NZ: RBNZ 2y inflation expect. (%), Q3: 2.04 vs. 2.01 prev.

CH: Imports (USD y/y%), Jul: 27.3 vs. 16.5 exp.

CH: Exports (USD y/y%), Jul: 12.2 vs. 10.0 exp.

## Good Morning

Market volatility remains suppressed but there has been some mild outperformance of commodity currencies and the yen (an unusual combination) for the day, while GBP remains unloved. US equities are flat and the global rates market shows little change as well.

Not long after we went to press yesterday morning the US said that it would begin imposing a 25% tariff on an additional \$16b of Chinese imports from 23 August. There was little market reaction as the news was expected and the \$16b figure adds to the \$34b of Chinese imports affected by tariffs imposed last month, taking the total to \$50b.

Overnight, and also expected, was China saying it would respond in kind on the same day at the same time and issuing a list of imported goods worth \$16b for which a 25% tariff would apply. China's Commerce Ministry issued a statement commenting "In order to defend China's rightful interests and the multilateral trade system, China has to retaliate as necessary." The tit-for-tat response by China makes it more likely that the US will follow-through with the proposed additional tariffs on a further \$200b of Chinese imports. That won't be nice and represents a whole new level of trade warfare.

On a more positive note, China trade data showed surprising strength in imports, while exports were also stronger than expected. These data came as a relief, given the recent focus on the risks facing China amidst the escalating US-China trade tensions. The data coincided with the release of the RBNZ survey of expectations which showed a small lift in NZ 2-year inflation expectations. Together, the data releases saw a little short squeeze in the NZD, seeing it move 25pips to as high as 0.6762 just after the NZ close. This morning the NZD sits close to that level, after a round trip to about 0.6725, just after the China trade retaliation news hit the market.

RBA Governor Lowe gave a relatively upbeat assessment

of the economic outlook yesterday, repeating that the likely next move in rates will be up and adding that the Bank will not wait for inflation to hit the mid- point of the target range, 2.5%, before moving. Inflation is expected to get there in 2020, suggesting 2019 is still front of mind for the Board in terms of timing for a possible rate hike. The AUD didn't react to the speech. NZD/AUD is up 20pips or so from the fresh multi-month low seen yesterday and currently sits at 0.9085.

JPY has strengthened, with USD/JPY back just under 111, ahead of US-Japan trade talks which kick off today. Yen strength might reflect some follow-through from the Reuters report noted yesterday, with the underlying message that the BoJ looks to be more interested than initially thought in backing gradually away from its super easy policy, despite inflation remaining well below target.

At the other end of the leaderboard, GBP continues to track lower, posting a fresh low of 1.2854 overnight, a level not seen since this time last year. The market is increasingly concerned about the possibility of a no-deal Brexit, which would be chaotic. Reports suggest that May is planning a top-level meeting of her cabinet ministers early in September specifically to discuss how to ready the UK for such a possible outcome.

The global rates market shows little pulse. The US 10-year Treasury rate has been in a tight 3bps range, showing no ill effect from a record-size \$26b 10-year auction. Bid to cover was better than average compared to recent auctions. Richmond Fed President Barkin gave his first substantial speech since becoming a voter on the FOMC. His comments seemed to be in line with the consensus, where he outlined the case for further gradual rate increases with the extent required depending on the dataflow. "It is difficult to argue that lower than normal rates are appropriate when unemployment is low and inflation is effectively at the Fed's target", he noted.

The NZ rates market was quiet yesterday with most of the salesforce attending a conference. Today the focus turns to the RBNZ's latest Monetary Policy Statement. The Bank will be weighing up the upside to near-term inflation risks, with signs of core inflation finally heading higher, and the risks to the growth outlook which might soften the medium-term inflation outlook. The net result should be the Bank keeping its policy options open, uncommitted to any policy adjustment for some time.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	RBNZ official cash rate (%)	Aug	1.75	1.75	09:00
CH	PPI (y/y%)	Jul	4.5	4.7	13:30
CH	CPI (y/y%)	Jul	2	1.9	13:30
US	PPI ex food and energy (m/m%)	Jul	0.2	0.3	00:30
US	PPI ex food and energy (y/y%)	Jul	2.8	2.8	00:30

Source: Bloomberg, BNZ.

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	0.6758	+0.3	0.6723	0.6762	CHF	0.9931	-0.3	2,860	+0.1	15.6	Oil (Brent)	72.23	-3.2	
AUD	0.7439	+0.2	0.7383	0.7440	SEK	8.946	+0.3	Dow	25,603	-0.1	15.9	Oil (WTI)	66.76	-3.5
EUR	1.1619	+0.2	1.1573	1.1628	NOK	8.209	+0.1	Nasdaq	7,895	+0.1	23.9	Gold	1212.6	+0.2
GBP	1.2891	-0.4	1.2854	1.2960	HKD	7.849	-0.0	Stoxx 50	3,494	-0.3	-0.6	HRC steel	895.0	+0.3
JPY	110.97	-0.4	110.84	111.29	CNY	6.836	+0.1	FTSE	7,777	+0.8	3.1	CRB	193.0	-0.8
CAD	1.3013	-0.3			SGD	1.362	-0.1	DAX	12,634	-0.1	2.8	Wheat Chic.	591.3	+0.3
NZD/AUD	0.9085	+0.1			IDR	14,439	-0.0	CAC 40	5,502	+0.1	5.4	Sugar	10.81	-0.6
NZD/EUR	0.5816	+0.1			THB	33.22	+0.0	Nikkei	22,644	-0.1	14.7	Cotton	87.39	-0.8
NZD/GBP	0.5242	+0.7			KRW	1,120	-0.3	Shanghai	2,744	-1.3	-16.2	Coffee	107.9	-1.1
NZD/JPY	74.99	-0.0			TWD	30.60	+0.0	ASX 200	6,269	+0.2	8.7	W/M powder	2960.0	-1.0
NZD/CAD	0.8794	+0.0			PHP	53.10	+0.3	NZX 50	8,872	-0.0	13.7	<b>Australian Futures</b>		
NZ TWI	72.95	+0.2												
<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				
USD	2.00	2.34	2.87	3.02	USD	2.97	-0.01	NZGB 6 05/15/21	1.89	0.01	1 year	1.99	0.01	
AUD	1.50	1.96	2.11	2.87	AUD	2.68	0.02	NZGB 5 1/2 04/15/23	2.12	0.01	2 year	2.12	0.01	
NZD	1.75	1.91	2.12	3.00	NZD	2.60	0.01	NZGB 2 3/4 04/15/25	2.43	0.01	5 year	2.52	0.01	
EUR	0.00	0.06	-0.14	0.93	GER	0.40	-0.01	NZGB 4 1/2 04/15/27	2.60	0.01	7 year	2.76	0.01	
GBP	0.75	0.81	1.10	1.58	GBP	1.31	-0.01	NZGB 3 04/20/29	2.75	0.01	10 year	3.02	0.01	
JPY	-0.07	-0.04	0.05	0.34	JPY	0.11	-0.00	NZGB 3 1/2 04/14/33	2.93	0.01	15 year	3.27	0.01	
CAD	1.50	1.17	2.46	2.73	CAD	2.36	-0.01	NZGB 2 3/4 04/15/37	3.07	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: NZT 06:49

Source: Bloomberg

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