

9 July 2018



Events Round-Up

- GE: Industrial production (m/m%), May: 2.6 vs. 0.3 exp.
- US: Trade balance (\$b), May: -43.1 vs. -43.6 exp.
- US: Change in nonfarm payrolls (k), Jun: 213 vs. 195 exp.
- US: Unemployment rate (%), Jun: 4.0 vs. 3.8 exp.
- US: Average hrly earnings (m/m%), Jun: 0.2 vs. 0.3 exp.
- US: Average hrly earnings (y/y%), Jun: 2.7 vs. 2.8 exp.
- CA: Unemployment rate (%), Jun: 6.0 vs. 5.8 exp.
- CA: Hrly earnings, perm. emp. (y/y%), Jun: 3.5 vs. 3.7 exp.

Good Morning

The USD was broadly softer after the White House went ahead with further tariffs on Chinese imports and it weakened further after the US employment report. Risk appetite was higher, with the market unperturbed by the tariffs and China's retaliatory response, which were well anticipated. The NZD closed the week on a strong note and modestly higher on all key crosses.

US import tariffs of 25% on \$34b of Chinese goods came into effect just after midnight Washington time (NZ 4pm Friday) and China retaliated immediately, calling the US actions "unfair" and accused it of violating WTO rules. There has been no further response by the US but before the tariffs came into effect Trump threatened tariffs on every dollar of Chinese imports, equating to over \$500b. We'll see.

US employment growth was slightly stronger than expected, but with stronger labour force participation, there was a surprise 0.2 percentage point lift in the unemployment rate to 4.0%. Along with slightly softer than expected wage inflation, the data suggested no reason for the Fed to become more aggressive with its policy tightening plans. The USD, already on the back foot, weakened after the release right through until the close, while US rates fell slightly.

Canada's labour market report showed similar characteristics, with strong employment growth met with higher participation, a higher unemployment rate and some slippage in wage inflation. The data miss wasn't seen to be significant enough to prevent the Bank of Canada hiking rates this week, with the probability of a 25bps move up to 87% from 81%.

Germany industrial production was strong in May, as forewarned by factory orders the previous day.

USD indices were down in the order of 0.4-0.5%, so not a

big move really, with light trading conditions continuing during the US holiday-shortened week. The not-too-hot, not-too-cold US employment report and lack of concern about the US-China trade war saw the S&P500 close up 0.8%, taking the weekly gain to 1.5%.

The NZD was a beneficiary of higher risk appetite, which saw it close around 0.6840, just off its high for the week, and some 1½ cents higher from Tuesday's low when China's currency was at its weakest. From a technical point of view, the NZD now looks in much better shape than it did at the beginning of last week although fundamentally it remains vulnerable if US-China trade tensions increase to the next level. We await some direction from President Trump. The AUD moved higher alongside the NZD, although the kiwi slightly outperformed, seeing the cross end the week on a high note just above the 0.92 mark.

Heading into Friday, there was event risk around GBP as the divided UK Cabinet met for an all-day retreat to nut out an agreement on Brexit to present to the EU. In the end, PM May seems to have come away a winner, with a soft Brexit plan that would keep close trade ties with the EU after leaving. The proposal includes a business-friendly UK-EU free trade area which establishes a common rulebook for industrial goods and agricultural products, while different arrangements would apply to services. GBP ended the week near its high around 1.3290. GBP might have been even stronger if not for some scepticism that the EU will buy into the UK's plan.

US Treasuries had a lacklustre session, trading in a 2.81-2.85% range, with the lower end of that range seen after the employment report. NZ swap rates were 3bps higher across the curve, showing some resistance to push down further after reaching fresh lows earlier in the week.

The economic calendar is bare in the day ahead and it might be a quiet day ahead. The only notable news over the weekend was US secretary of State Pompeo gaining little from a trip to North Korea. The US was accused by Pyongyang of "robbery" and "gangster-like" demands. It shouldn't come as a surprise, simply confirming the scepticism of most that little much will change after a lack of specifics was revealed in the post Kim-Trump summit agreement signed last month.

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Coming Up

	Period	Cons.	Prev.	NZT
CH Foreign Reserves	Jun	3102	3111	

Source: Bloomberg, BNZ.

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)				Other FX			Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6836	+0.6	0.6803	0.6845	CHF	0.9893	-0.4	S&P 500	2,760	+0.8	13.8	Oil (Brent)	77.11	-0.4
AUD	0.7430	+0.6	0.7390	0.7444	SEK	8.724	-0.5	Dow	24,456	+0.4	14.2	Oil (WTI)	73.80	+1.3
EUR	1.1746	+0.5	1.1684	1.1767	NOK	8.030	-0.4	Nasdaq	7,688	+1.3	25.0	Gold	1255.8	-0.2
GBP	1.3283	+0.5	1.3215	1.3288	HKD	7.848	+0.0	Stoxx 50	3,448	+0.2	-0.4	HRC steel	912.0	+0.0
JPY	110.47	-0.2	110.38	110.79	CNY	6.643	+0.1	FTSE	7,618	+0.2	3.6	CRB	198.1	+0.9
CAD	1.3084	-0.4			SGD	1.358	-0.5	DAX	12,496	+0.3	0.9	Wheat Chic.	515.3	+1.9
NZD/AUD	0.9201	+0.3			IDR	14,375	-0.1	CAC 40	5,376	-0.3	4.5	Sugar	11.51	+0.3
NZD/EUR	0.5820	+0.3			THB	33.14	-0.2	Nikkei	21,788	+1.1	9.3	Cotton	86.38	+3.2
NZD/GBP	0.5146	+0.2			KRW	1,116	-0.2	Shanghai	2,747	+0.5	-14.6	Coffee	114.1	+4.5
NZD/JPY	75.52	+0.5			TWD	30.49	-0.2	ASX 200	6,272	+0.9	10.0	WM powder	2920.0	-0.3
NZD/CAD	0.8944	+0.2			PHP	53.35	-0.2	NZX 50	9,084	+0.2	19.2	Australian Futures		
NZ TWI	73.17	+0.4										3 year bond	97.93	0.00
												10 year bond	97.39	-0.02
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	2.00	2.34	2.80	2.90	USD	2.82	-0.01	NZGB 6 05/15/21	1.91	0.02	1 year	2.07	0.01	
AUD	1.50	2.06	2.08	2.80	AUD	2.62	0.03	NZGB 5 1/2 04/15/23	2.14	0.02	2 year	2.19	0.03	
NZD	1.75	1.99	2.19	3.04	NZD	2.62	0.03	NZGB 2 3/4 04/15/25	2.43	0.02	5 year	2.57	0.03	
EUR	0.00	0.06	-0.17	0.86	GER	0.29	-0.01	NZGB 4 1/2 04/15/27	2.62	0.03	7 year	2.80	0.03	
GBP	0.50	0.71	1.06	1.53	GBP	1.27	0.01	NZGB 3 04/20/29	2.81	0.03	10 year	3.04	0.03	
JPY	-0.07	-0.04	0.04	0.24	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	2.99	0.04	15 year	3.30	0.03	
CAD	1.25	1.17	2.26	2.53	CAD	2.13	-0.02	NZGB 2 3/4 04/15/37	3.14	0.03				

* 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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