

10 July 2018



## Events Round-Up

CH: Foreign Reserves (\$b), Jun: 3112 vs. 3103 exp.

## Good Morning

The new week has begun with a further recovery in risk appetite amidst light trading conditions. The AUD has modestly outperformed, while trading in GBP has been whippy, driven by political forces.

On a light news day, risk appetite is higher, with stronger global equity markets, higher US Treasury yields, the VIX back down with a 12-handle and the AUD and JPY at opposite ends of the leaderboard. The only data release of note was China foreign reserves yesterday, which showed little official currency intervention in June, a month where CNY was under pressure.

There has been little news on the trade war front after a fresh round of import tariffs were imposed by the US and China on Friday. Trump's twitter stream remains active as usual – with topics ranging from his confidence in Kim Jong Un to denuclearise North Korea, selection of a new Supreme Court judge, an attack on Europe's contribution to NATO, drug prices and breast feeding – but nothing on trade. So we still await his next move on that front after previous threats to impose tariffs on all Chinese imports. Yesterday, China's Ministry of Commerce acknowledged that when implementing the retaliatory US import tariffs it had fully considered the substitution of goods and that "retaliatory duties will be used to alleviate the pain caused by the conflict".

In currency markets, GBP has been the most active, trading in a wide 1.3190-1.3363 range after a big fall-out following Friday's Cabinet retreat. Yesterday UK Brexit Secretary Davis resigned, followed closely by his assistant Baker, and in overnight news Foreign Secretary Johnson has resigned. These Cabinet members were all pro-Brexit and disagreed with PM May's Brexit plan. Gains in GBP seen late in the Asian trading session were more than wiped out after Johnson's resignation, and the currency is attempting to stage another recovery.

It seems that the pro-Brexit wing of the Conservative party has enough votes to force a vote of confidence on PM May, but there aren't enough votes to oust her. While market uncertainty about a possible leadership challenge to May and the way forward on Brexit plans have weighed

on GBP, isn't all bad news. On the positive side the Cabinet will now be more on side with May's soft-Brexit plan and ultimately this should be GBP-positive, but the uncertainty in the meantime is enough to keep GBP under pressure. While GBP has been volatile, it is currently down only 0.2% to 1.3250, while NZD/GBP is up modestly to 0.5160.

NZD has been out of the spotlight and traded a narrow range. It sits this morning at 0.6840, close to where it ended last week. Against a higher risk appetite backdrop, AUD has outperformed, up 0.5% to 0.7465, dragging NZD/AUD down to 0.9160. The NZD is flat to higher on the other crosses. JPY has been the softest of the majors against the positive risk sentiment backdrop, seeing USD/JPY up 0.3% to 110.80 and NZD/JPY up 0.5% to 75.8.

US Treasury yields are 2-3 bps higher across the curve, with little news to drive the market, and the move seems largely a reflection of higher risk appetite. The S&P500 is currently up a solid 0.8%, adding to the strong gain last week. The earnings season begins this week which the market will be focused on. Yesterday, NZ rates barely moved across the swap and government curves.

There are a number of economic releases on the calendar in the day ahead, but none of them seem important enough to shift the dial. Thursday night's US CPI release is the key figure this week, while on the policy front a tightening in policy is expected by the Bank of Canada on Wednesday night, which would be its fourth rate hike this cycle. The NZD should remain on the sidelines during the week, ahead of next week's NZ Q2 CPI release.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card spending retail (m/m%)	Jun	0.5	0.4	10:45
AU	NAB business conditions	Jun		15	13:30
CH	PPI (y/y%)	Jun	4.5	4.1	13:30
CH	CPI (y/y%)	Jun	1.9	1.8	13:30
UK	Trade balance (£m)	May	-3378	-5280	20:30
UK	Industrial production (m/m%)	May	0.5	-0.8	20:30
GE	ZEW survey expectations	Jul	-18.5	-16.1	21:00
US	NFIB small business opt.	Jun	105.8	107.8	22:00

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	0.6841	+0.2	0.6830	0.6859	CHF	0.9919	+0.3	S&P 500	2,781	+0.8	14.7	Oil (Brent)	78.21	+1.4
AUD	0.7468	+0.5	0.7456	0.7484	SEK	8.726	-0.0	Dow	24,782	+1.4	15.7	Oil (WTI)	73.96	+0.3
EUR	1.1747	+0.0	1.1733	1.1791	NOK	8.022	-0.1	Nasdaq	7,740	+0.7	25.8	Gold	1259.5	+0.3
GBP	1.3253	-0.2	1.3190	1.3363	HKD	7.849	+0.0	Stoxx 50	3,460	+0.3	-0.1	HRC steel	911.0	-0.1
JPY	110.85	+0.3	110.39	110.90	CNY	6.616	-0.4	FTSE	7,688	+0.9	4.6	CRB	198.3	+0.1
CAD	1.3109	+0.2			SGD	1.356	-0.1	DAX	12,544	+0.4	1.3	Wheat Chic.	508.0	-1.4
NZD/AUD	0.9160	-0.5			IDR	14,330	-0.3	CAC 40	5,398	+0.6	4.9	Sugar	11.40	-1.0
NZD/EUR	0.5824	+0.1			THB	33.08	-0.2	Nikkei	22,052	+1.2	9.8	Cotton	87.16	+3.2
NZD/GBP	0.5162	+0.3			KRW	1,112	-0.3	Shanghai	2,815	+2.5	-12.4	Coffee	115.1	+0.4
NZD/JPY	75.83	+0.5			TWD	30.35	-0.5	ASX 200	6,286	+0.2	9.8	WMI powder	2935.0	+0.5
NZD/CAD	0.8968	+0.4			PHP	53.40	+0.1	NZX 50	9,062	-0.2	19.5	<b>Australian Futures</b>		
NZ TWI	73.11	-0.0										3 year bond	97.92	-0.01
												10 year bond	97.38	-0.01

  

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	2.33	2.81	2.93	USD	2.85	0.03	NZGB 6 05/15/21	1.92	0.01	1 year	2.07	-0.00
AUD	1.50	2.06	2.10	2.81	AUD	2.61	-0.01	NZGB 5 1/2 04/15/23	2.14	0.01	2 year	2.19	0.00
NZD	1.75	1.97	2.19	3.04	NZD	2.63	0.01	NZGB 2 3/4 04/15/25	2.44	0.00	5 year	2.57	0.00
EUR	0.00	0.06	-0.17	0.86	GER	0.30	0.01	NZGB 4 1/2 04/15/27	2.63	0.01	7 year	2.80	0.00
GBP	0.50	0.71	1.05	1.52	GBP	1.25	-0.02	NZGB 3 04/20/29	2.82	0.01	10 year	3.04	0.00
JPY	-0.07	-0.05	0.03	0.24	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.00	0.01	15 year	3.30	0.00
CAD	1.25	1.17	2.29	2.55	CAD	2.16	0.03	NZGB 2 3/4 04/15/37	3.15	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: NZT 06:55

Source: Bloomberg

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