

13 July 2018



Events Round-Up

- NZ: Food prices (m/m%), Jun: 0.5% vs 0% prev.
- EC: Industrial production (m/m%), May: 1.3% vs 1.2% exp.
- US: CPI (m/m%), Jun: 0.1% vs 0.2% exp.
- US: CPI ex food and energy (m/m%), Jun: 0.2% vs 0.2% exp.
- US: CPI (y/y%), Jun: 2.9% vs 2.9% exp.
- US: CPI ex food and energy (y/y%), Jun: 2.3% vs 2.3% exp.

Good Morning

Risk markets have recovered overnight as China didn't immediately retaliate to the President Trump's latest threat to impose tariffs on \$200b worth of imports. Against a backdrop of better risk sentiment, the NZD has bounced a little, but it remains near multi-year lows.

Global equities are higher across the board over the past 24 hours, with the S&P500 up 0.8% and near its highest level since March while the NASDAQ made a new record high overnight. The Chinese response to President Trump's latest threat to impose tariffs on \$200b of imports has been a little more conciliatory. A spokesman for the Chinese Ministry of Commerce said China would take "necessary" steps to defend its interests but didn't explicitly say it would respond with equivalent measures while China's vice minister of Commerce said "we should sit down and try to find a solution to this trade problem". Meanwhile, US Treasury Secretary Mnuchin told the US House Financial Services Committee that the US was "available" for negotiations if China made structural changes. The S&P500 is now back to where it was on Wednesday morning, before the US administration gave more details on the \$200b tariff threat. The Shanghai composite index rose over 2% yesterday, more than reversing the previous day's falls.

FX market moves over the past 24 hours reflect this 'risk-on' tone, with the Japanese yen and Swiss franc the weakest currencies while the AUD (the market's preferred China proxy in the G10) is the strongest. Emerging market currencies have also made gains. The broader US dollar indices are close to unchanged on the day.

The improvement in risk appetite has helped the NZD stage something of a recovery over the past 24 hours. It

has moved up to around 0.6770 from its lows of 0.6748 yesterday. Unlike equities however, the NZD remains around a percent below where it was trading on Wednesday morning (0.6840) before Trump's \$200b tariff threat. NZ food price data yesterday was marginally higher than we had anticipated (although didn't impact the market) and affirmed our 0.6% q/q forecast for Q2 CPI for next week (which would bring the annual rate to 1.7%).

There was next to no market reaction from the US CPI release, with core inflation meeting expectations and the annual rate moving up to 2.3% from 2.2%. US bond yields are near unchanged on the day, with the US 10 year Treasury yield at 2.85%, despite the move higher in equity markets. Fed Chair Powell gave a radio interview an hour or so ago reiterating the symmetric nature of the inflation target and noting (unsurprisingly) that trade tariffs "could be a negative for our economy". The market prices a 50% chance of a fourth hike this year by the Fed.

There was little market reaction to the release of the UK government's long-awaited white paper on Brexit which outlined the UK's plans to have a free-trade area in goods but some divergence in services. The white paper said the complicated "facilitated customs arrangement" would be phased-in and there could be a delay of 12 to 18 months after the transition period ends in December 2020. Commentators are still dubious that the EU will agree to the plan and Theresa May still has to contend with a potential rebellion from hard-line brexiteers in her party. The GBP is near unchanged on the day, just above 1.32.

There's not too much by way of economic data likely to move markets in the day ahead, but the US earnings season unofficially kicks off tonight with JPM, Citi and Wells Fargo reporting. The NZ PMI is released this morning as well.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	BusinessNZ Manufacturing PMI	Jun		54.5	10:30
CH	Trade Balance	Jun	27.7	24.9	
US	U. of Mich. Sentiment	Jul P	98	98.2	02:00
US	Fed Releases Monetary Policy Report to Congress				03:00
US	Fed's Bostic Holds Town Hall Chat in Northern Virginia				04:30

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	0.6763	-1.1	0.6756	0.6823	CHF	0.9958	+0.4			S&P 500	2,776	-0.6	14.5	Oil (Brent)	74.29	-5.8
AUD	0.7374	-1.1	0.7368	0.7421	SEK	8.819	+0.9			Dow	24,734	-0.8	15.5	Oil (WTI)	71.09	-4.1
EUR	1.1677	-0.6	1.1666	1.1758	NOK	8.105	+1.1			Nasdaq	7,728	-0.4	24.8	Gold	1244.0	-0.9
GBP	1.3210	-0.5	1.3201	1.3285	HKD	7.849	+0.0			Stoxx 50	3,422	-1.5	-1.2	HRC steel	912.0	+0.0
JPY	112.01	+0.9	110.95	112.17	CNY	6.683	+0.7			FTSE	7,592	-1.3	3.6	CRB	192.8	-2.8
CAD	1.3200	+0.7			SGD	1.364	+0.5			DAX	12,417	-1.5	-0.2	Wheat Chic.	471.8	-4.1
NZD/AUD	0.9171	+0.1			IDR	14,385	+0.1			CAC 40	5,354	-1.8	4.1	Sugar	11.29	-1.1
NZD/EUR	0.5792	-0.5			THB	33.32	+0.4			Nikkei	21,932	-1.2	9.1	Cotton	85.24	-2.5
NZD/GBP	0.5120	-0.6			KRW	1,120	+0.3			Shanghai	2,778	-1.8	-13.1	Coffee	112.1	-2.4
NZD/JPY	75.75	-0.2			TWD	30.49	+0.3			ASX 200	6,216	-0.7	9.5	WMI powder	2960.0	+0.3
NZD/CAD	0.8927	-0.5			PHP	53.61	+0.1			NZX 50	9,001	-0.2	18.7	Australian Futures		
NZ TWI	72.76	-0.5											3 year bond	97.945	0.04	
													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	2.81	2.92	USD	2.84	-0.01	NZGB 6 05/15/21	1.95	-0.01	1 year	2.05	-0.01			
AUD	1.50	2.04	2.08	2.81	AUD	2.61	-0.02	NZGB 5 1/2 04/15/23	2.18	0.00	2 year	2.18	-0.02			
NZD	1.75	1.96	2.18	3.04	NZD	2.66	-0.00	NZGB 2 3/4 04/15/25	2.47	-0.01	5 year	2.57	-0.02			
EUR	0.00	0.06	-0.17	0.87	GER	0.37	0.05	NZGB 4 1/2 04/15/27	2.66	-0.00	7 year	2.80	-0.01			
GBP	0.50	0.72	1.06	1.54	GBP	1.29	-0.01	NZGB 3 04/20/29	2.85	-0.01	10 year	3.04	-0.01			
JPY	-0.07	-0.04	0.04	0.25	JPY	0.04	-0.00	NZGB 3 1/2 04/14/33	3.03	-0.01	15 year	3.30	-0.01			
CAD	1.50	1.17	2.29	2.54	CAD	2.15	-0.01	NZGB 2 3/4 04/15/37	3.18	-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 07:16

Source: Bloomberg

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