

13 June 2018



Events Round-Up

NZ: Card spending retail (m/m%), May: 0.4 vs. 1.2 exp.
AU: NAB business conditions, May: 15 vs. 21 prev.
AU: Home loans (m/m%), Apr: -1.4 vs. -1.8 exp.
UK: Unemployment rate (%), Apr: 4.2 vs. 4.2 exp.
GE: ZEW survey expectations, Jun: -16.1 vs. -14 exp.
US: NFIB small business conf., May: 107.8 vs. 105.0 exp.
US: CPI ex food and energy (m/m%), May: 0.2 vs. 0.2 exp.
US: CPI ex food and energy (y/y%), May: 2.2 vs. 2.2 exp.

Good Morning

Market volatility remains subdued. Currency movements have been modest although the NZD and AUD have slightly underperformed in overnight trading. Equity and bond markets are little changed.

Yesterday the focus of attention was on the budding bromance of Trump and Kim. There was plenty of handshaking and shoulder patting and no doubt both of their egos were inflated by the historic meeting with the eyes of the world on them. The signed agreement showed a commitment to “complete denuclearisation of the Korean Peninsula” and the US would provide “security guarantees” to North Korea but there was a lack of specifics about how this would be achieved. The relationship between the two countries has surely improved but there is a healthy degree of scepticism that much else has changed. Political analysts are calling the summit more of a win for North Korea and China than the US and its allies Japan and South Korea. There was little market reaction. Within the S&P500, the aerospace and defense sub-index underperformed as Trump said he would cease “tremendously expensive” and “provocative” joint military exercises with South Korea as long as productive talks continue with the North.

The USD is better bid in overnight trading with various dollar indices up around 0.3%, although markets appear to be in a wait-and-see mode ahead of the FOMC’s announcement Thursday morning and the ECB policy meeting Thursday night, NZ time. US CPI data were in line with expectations, with annual core inflation nudging higher, and no smoking gun to suggest that the Fed will change its pace of tightening. US small business optimism showed a surprising increase to a 35-year high. US 10-year Treasury rates have traded in a 2.94-2.98% range and currently sit at 2.96%, up 1bp from the NZ

close.

Against the backdrop of a slightly stronger USD, the NZD sits at the lower end of the range of the past 24 hours, close to 0.7000. With the USD in the driving seat NZD/JPY and NZD/EUR are flat. The AUD has underperformed and sits near 0.7570, which sees NZD/AUD up slightly to 0.9250. Yesterday, NZ electronic card spending data showed a more modest bounce than expected after the poor April result. However, our faith in this data series is much reduced as it has become a more unreliable indicator of retail spending. The data excludes the growing presence of Apple-pay and Paywave transactions.

Trading in GBP was again choppy as the vote began in Parliament on amendments to the UK Withdrawal (EU) Bill. A last minute concession enabled PM May to win the first of two crucial votes, with the end result likely being Parliament having a greater say in the Brexit process – a more market friendly outcome as a clear Parliamentary majority wants to keep closer ties to the EU – reducing the chance of a no-deal Brexit scenario. In overnight trading, GBP swung a couple of times within a 90pip range and is currently flat at around 1.3370. Early in the session, UK employment was slightly higher than expected while wage data were slightly weaker. The unemployment rate remained at 4.2%, a level suggesting little spare capacity in the economy, however, the BoE will want to see economic momentum picking up before tightening policy.

In the day ahead, UK CPI data is probably the headline act on the economic calendar, while the debate on the UK Withdrawal Bill debate heads into a second day. At 6am tomorrow morning NZ time, another Fed rate hike looks like a done deal and the falling unemployment rate should give the FOMC more confidence that further rate hikes are required to keep inflation in check. Expect a slightly more hawkish tone compared to the last statement. There will be some focus on whether the median FOMC member shifts from projecting 3 rates to 4 hikes in total this year, but the mean estimate is already closer to 4 and market economists expect 4 hikes this year as well.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Food prices, m/m%	May		0.1	10:45
AU	Westpac consumer conf	Jun		101.8	12:30
AU	RBA's Lowe gives speech in Melbourne				14:00
UK	CPI core (y/y%)	May	2.1	2.1	20:30
EC	Industrial production (m/m%)	Apr	-0.7	0.5	21:00
US	PPI ex food and energy (y/y%)	May	2.3	2.3	00:30
US	FOMC rate decision (%)	Jun	1.75-2	1.5-1.75	06:00

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	0.7002	-0.3	0.6997	0.7046	CHF	0.9865	+0.1		S&P 500	2,782	-0.0	14.5		Oil (Brent)	75.74	-0.9
AUD	0.7569	-0.5	0.7566	0.7624	SEK	8.653	-0.1		Dow	25,266	-0.2	19.0		Oil (WTI)	66.34	+0.4
EUR	1.1746	-0.3	1.1734	1.1809	NOK	8.053	+0.1		Nasdaq	7,682	+0.3	24.4		Gold	1294.4	-0.3
GBP	1.3374	-0.0	1.3342	1.3425	HKD	7.847	+0.0		Stoxx 50	3,476	-0.1	-1.9		HRC steel	906.0	-0.4
JPY	110.39	+0.3	110.10	110.49	CNY	6.403	+0.0		FTSE	7,704	-0.4	2.6		CRB	200.1	+0.4
CAD	1.3021	+0.3			SGD	1.337	+0.1		DAX	12,842	-0.0	1.2		Wheat Chic.	550.0	+3.8
NZD/AUD	0.9251	+0.2			IDR	13,966	+0.2		CAC 40	5,453	+0.1	4.1		Sugar	12.35	+0.0
NZD/EUR	0.5961	-0.0			THB	32.10	+0.2		Nikkei	22,878	+0.3	15.0		Cotton	95.23	+0.5
NZD/GBP	0.5236	-0.3			KRW	1,077	+0.2		Shanghai	3,080	+0.9	-2.3		Coffee	119.5	+0.3
NZD/JPY	77.30	+0.0			TWD	29.85	+0.1		ASX 200	6,054	+0.2	4.9		WM powder	3155.0	+0.5
NZD/CAD	0.9117	+0.0			PHP	53.09	+0.1		NZX 50	8,959	-0.0	20.4		Australian Futures		
NZ TWI	73.73	-0.1												3 year bond	97.775	0.00
														10 year bond	97.21	0.00
Interest Rates						NZ Government Bonds				NZ Swap Yields						
Rates		Swap Yields		Benchmark 10 Yr Bonds												
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last					
USD	1.75	2.33	2.80	3.02	USD	2.96	0.01	NZGB 6 05/15/21	2.05	0.00	1 year	2.08	-0.01			
AUD	1.50	2.06	2.12	2.96	AUD	2.80	0.03	NZGB 5 1/2 04/15/23	2.33	0.00	2 year	2.24	0.00			
NZD	1.75	2.01	2.24	3.20	NZD	2.81	0.00	NZGB 2 3/4 04/15/25	2.62	0.00	5 year	2.71	-0.00			
EUR	0.00	0.06	-0.12	1.01	GER	0.49	-0.00	NZGB 4 1/2 04/15/27	2.81	0.00	7 year	2.95	-0.01			
GBP	0.50	0.62	1.03	1.60	GBP	1.40	-0.01	NZGB 3 04/20/29	2.98	0.00	10 year	3.20	-0.01			
JPY	-0.07	-0.04	0.05	0.28	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.16	0.01	15 year	3.47	-0.01			
CAD	1.25	1.17	2.25	2.68	CAD	2.30	-0.01	NZGB 2 3/4 04/15/37	3.31	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 06:49

Source: Bloomberg

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