

15 June 2018



### Events Round-Up

AU: Employment change ('000), May: 12.0 vs. 19.0 exp.  
AU: Unemployment rate (%), May: 5.4 vs. 5.5 exp.  
CH: Retail sales (y/y%), May: 8.5 vs. 9.6 exp.  
CH: Industrial production (y/y%), May: 6.8 vs. 7.0 exp.  
CH: Fixed assets investment (y/y%), May: 6.1 vs. 7.0 exp.  
UK: Retail sales ex auto fuel (m/m%), May: 1.3 vs. 0.3 exp.  
EC: ECB deposit facility rate (%), Jun: -0.4 vs. -0.4 exp.  
US: Retail sales x auto, gas (m/m%), May: 0.8 vs. 0.4 exp.

### Good Morning

The USD is stronger across the board while the EUR has been hit by a dovish ECB, which has also put downward pressure on global rates. The NZD has performed okay under the circumstances, rising on a few of the major crosses.

As a currency strategist it has been good to finally see some action in the market, kicked off by the more hawkish Fed yesterday morning. After the initial burst higher in the USD after the FOMC statement, it struggled to perform, with talk of the White House on the verge of implementing tariffs on Chinese imports possibly as soon as today, subject to Trump's final sign-off. The struggle continued after a Trump interview on Fox News that included a comment "China could be a little bit upset about trade because we are very strongly clamping down on trade". The message from the market was that US trade protectionism was seen to be USD-negative, trumping the positive economic and monetary policy backdrop.

The soft USD dynamic all changed after the ECB's announcement, which was keenly awaited. The ECB outlined a tapering of its asset purchase programme, from the current €30bn per month rate through to September down to €15bn per month over Q4, before ending. This timeframe for the end of QE policy was well anticipated but the surprise was in the interest rate guidance, with no plans to change the key policy rates until "at least through the summer of 2019", or longer if needed. The market had been primed for the first rate hike occurring June 2019, but President Draghi indicated that it might be September 2019 at the earliest. This dovish rates guidance was backed up by Draghi reiterating the uncertainty about the outlook and the fact that the 2020 inflation forecast was unchanged at 1.7%, despite the

upward revision to the near-term projections.

EUR plunged after the announcement and has continued to trend lower, falling 2% from about 1.1825 pre-announcement down to a low of 1.1590. Added into the mix was some German political risk. A clash over migration policy has seen reports that Chancellor Merkel's Bavarian partner is threatening to leave the coalition. Bavaria's CSU is demanding that refugees are immediately turned away at the border, while Merkel's CDU party wants talks with other EU countries on policies to curb illegal immigration first.

NZD/EUR is back up through 0.60, near the top of the trading range it has been stuck in for the past eight months. While the EUR was trashed, this also seemed to set the scene for a general desire to buy USD across the board, supported by some strong retail sales data. US retail sales in May were stronger than expected, supporting the view that Q2 GDP will show a significant rebound. The Atlanta Fed GDPNow indicator continues to push higher and sits at 4.8%.

UK retail sales were also much stronger than expected in May, which might have been boosted by brilliant weather over the month and the royal wedding, but the boost to GBP proved to be temporary as the other events took over. This wasn't helped by headlines that the UK government is set to face another showdown with pro-EU Conservative rebels next week, as talks with lawmakers failed to produce a legal text both sides could agree to. After stretching to nearly 1.3450, GBP currently sits down at 1.3285.

The NZD has performed better than most but the USD strength sees it down to around 0.6980 this morning after an overnight high of 0.7045. NZD/AUD is up 0.6% to 0.9325 as the AUD has fallen down through 0.75. The Australian employment report didn't provide any support for the AUD even though the unemployment rate fell, with a weaker participation rate behind that while employment growth was a little softer than expected. China activity data released yesterday all undershot market expectations, including the weakest growth in investment since the series began in 1999 and this seemed to weigh on demand for the AUD.

The dovish ECB saw Germany's 10 year rate down 6bps for the day to 0.42% and this spilled over into other markets. Despite strong US retail sales and a positive equity market backdrop, the US 10-year rate has drifted down to around 2.94%. A flattening bias has been

evident, with the 2-year rate steady at 2.57%. NZ rates were lower across the board yesterday, driven by global forces, with a fall of about 4bps for 10-year government bonds and swap.

Finally, Brent oil is down about 1% after Saudi Arabia's oil minister said it is "inevitable" that OPEC and its allies will agree to boost oil output gradually.

In the day ahead, we'll be keeping an eye out for any White House announcement on US tariffs, although that might not come until tonight. The BoJ meets today and in comparison to the recent Fed and ECB announcements, this one should pass with little market reaction, with

policy at its physical limits and core inflation moving away from the BoJ's 2% target.

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### Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	May		58.9	10:30
JN	BoJ 10-yr yield target	Jun	0.0	0.0	
US	Industrial production (m/m%)	May	0.2	0.7	01:15
US	U. of Mich. cons. sent.	Jun	98.5	98	02:00

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.6982	-0.6	0.6973	0.7045	S&P 500	2,782	+0.2	14.1	Oil (Brent)	76.05	-0.9
AUD	0.7485	-1.2	0.7485	0.7566	Dow	25,147	-0.2	17.6	Oil (WTI)	67.00	+0.5
EUR	1.1595	-1.7	1.1590	1.1851	Nasdaq	7,743	+0.6	25.0	Gold	1301.8	+0.4
GBP	1.3282	-0.7	1.3270	1.3447	Stoxx 50	3,527	+1.4	-0.9	HRC steel	902.0	-0.3
JPY	110.60	+0.2	109.92	110.69	FTSE	7,766	+0.8	3.5	CRB	199.0	-0.5
CAD	1.3099	+0.9			DAX	13,107	+1.7	2.7	Wheat Chic.	517.3	-2.9
NZD/AUD	0.9328	+0.6			CAC 40	5,528	+0.5	5.1	Sugar	12.23	-2.2
NZD/EUR	0.6022	+1.1			Nikkei	22,739	-1.0	14.7	Cotton	93.41	-0.5
NZD/GBP	0.5257	+0.1			Shanghai	3,044	-0.2	-2.8	Coffee	118.0	-0.5
NZD/JPY	77.22	-0.4			ASX 200	6,017	-0.1	4.4	WM powder	3155.0	+0.0
NZD/CAD	0.9146	+0.3			NZX 50	8,978	+0.0	19.4	<b>Australian Futures</b>		
NZ TWI	73.88	-0.1							3 year bond	97.82	0.03
									10 year bond	97.29	0.07

  

Interest Rates						NZ Government Bonds			NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds			Last		Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	2.00	2.34	2.84	3.01	USD	2.95	-0.02	NZGB 6 05/15/21	2.04	-0.02	1 year	2.10	0.00
AUD	1.50	2.07	2.10	2.89	AUD	2.72	-0.05	NZGB 5 1/2 04/15/23	2.32	-0.02	2 year	2.24	-0.01
NZD	1.75	2.00	2.24	3.17	NZD	2.79	-0.03	NZGB 2 3/4 04/15/25	2.60	-0.02	5 year	2.69	-0.02
EUR	0.00	0.06	-0.16	0.95	GER	0.43	-0.06	NZGB 4 1/2 04/15/27	2.79	-0.03	7 year	2.92	-0.03
GBP	0.50	0.63	1.01	1.54	GBP	1.33	-0.04	NZGB 3 04/20/29	2.96	-0.04	10 year	3.17	-0.04
JPY	-0.07	-0.04	0.05	0.27	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.15	-0.04	15 year	3.43	-0.04
CAD	1.25	1.17	2.28	2.67	CAD	2.28	-0.04	NZGB 2 3/4 04/15/37	3.30	-0.04			

\* 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 06:59

Source: Bloomberg

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