

16 July 2018



## Events Round-Up

NZ: PMI, Jun: 52.8 vs 54.5 prev.

CH: Trade balance, Jun: \$41.6b vs \$27.7b exp.

CH: Aggregate financing, Jun: 1.18b vs 1.4b exp.

US: University of Michigan consumer sentiment, Jun: 97.1 vs 98 exp.

## Good Morning

It was a reasonably quiet end to the week, with the S&P500 edging out a small gain and closing at its highest level since February. Ahead of the NZ CPI release tomorrow, the NZD was the weakest performing G10 currency. Offshore, there will be focus this week on Fed Chair Powell's semi-annual testimony, US corporate earnings season and Chinese activity data.

The US dollar had a round-trip on Friday before ending weaker against most currencies (the NZD being one of the exceptions). After we went home on Friday evening, the USD strengthened across the board, taking the EUR down from 1.1660 to as low as 1.1613 and the AUD from 0.7410 to 0.7368. Weaker than expected Chinese Aggregate Financing credit numbers (implying a slow-down in the shadow banking sector) and M2 money supply growth saw USD/CNY move above 6.70 and likely contributed to the intraday weakness in the AUD. The GBP also came under pressure as details of President Trump's interview with the Sun newspaper emerged, where he said the UK government's recently proposed trade arrangement with the EU "would probably kill" the chances of a UK-US free-trade deal.

The move in the USD reversed around midday London time, with the EUR closing higher on the day at 1.1686 and the AUD around 0.7425 (leaving it the best performing currency on the day). President Trump gave a joint press conference with Theresa May, where he seemed to backtrack on some of his comments in the Sun, saying a free trade deal was "absolutely possible", praising Theresa May as a "tough negotiator", and helping the GBP recover its earlier losses.

The NZD carved out the same intraday pattern but ended the day lower against the USD and the weakest performing G10 currency on the day. The NZD ended the week just below 0.6770, a 0.4% fall on the day while the NZD/AUD fell 0.5% and closed at its lowest level since

late January, below 0.9120. The weakness in the NZD may be partly related to some concerns in the market about the risk of a low CPI reading when it is released tomorrow - there is an unusually wide divergence in economists' forecasts for headline CPI (0.1% to 0.7% q/q). Our forecast is for a 0.6% q/q rise in headline CPI (slightly above the median of 0.5%), but a weaker than expected print would likely see the NZD at least test its year-to-date lows of 0.6688.

Equity markets closed the week on a slightly stronger note, with the S&P500 up 0.1% and notching up its highest close since February. The S&P500 is now just 2.5% off its intraday record high reached in late January. Corporate earnings season is now underway, and JPM and Citi reported better than expected earnings on Friday, although it didn't help either share price (Citi closing down 2.2% and JPM 0.5%). Both banks cited a strong economy and loan growth as supporting their results. Corporate earnings season really kicks into gear this week with Netflix (tonight), Microsoft, IBM, Taiwan Semi (the world's largest chipmaker and a major Apple supplier), GE and more of the US banks reporting.

There hasn't been much news on the trade front, which has probably helped sentiment towards equities, although President Trump has continued to fire off barbs against the EU, telling CBS over the weekend that he considers the EU a "foe" that had taken advantage of the US with its trade practices.

US yields fell slightly on Friday, with the 10 year Treasury yield down 2bps to 2.83%. US consumer confidence data was slightly weaker than expected, but it remained at very healthy levels and had little market impact. The focus of the rates market this week is Fed Chair Powell's semi-annual testimony to the House and Senate. He will no doubt be asked by lawmakers how he sees the risks around trade relations and how that might affect the path of Fed policy. We'll also be interested if Powell has anything to say about what conditions the Fed would want to see to take rates above "neutral" (the Fed currently sees the neutral rate at 2.9%).

It's a big day ahead for Chinese activity data, with Q2 GDP, retail sales, industrial production and fixed asset investment all released. Weaker Chinese data this time last month preceded an almost 5% rise in USD/CNY in just three weeks and contributed to weakness in the NZD and AUD over this period (the escalation in the US-China trade standoff no doubt contributed to the move as well).

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Coming Up

|                                  | Period | Cons. | Prev. | NZT   |
|----------------------------------|--------|-------|-------|-------|
| NZ Performance Services Index    | Jun    |       | 57.3  | 10:30 |
| CH GDP YoY                       | 2Q     | 6.7   | 6.8   | 14:00 |
| CH Retail Sales YoY              | Jun    | 8.9   | 8.5   | 14:00 |
| CH Industrial Production YoY     | Jun    | 6.5   | 6.8   | 14:00 |
| CH Fixed Assets Ex Rural YTD YoY | Jun    | 6     | 6.1   | 14:00 |
| US Retail Sales Advance MoM      | Jun    | 0.6   | 0.8   | 00:30 |
| US Retail Sales Ex Auto and Gas  | Jun    | 0.5   | 0.8   | 00:30 |
| US Retail Sales Control Group    | Jun    | 0.3   | 0.5   | 00:30 |

Source: Bloomberg, BNZ.

| Foreign Exchange                |        |       |        |        | Equities      |        |                       |                     | Commodities**             |        |                |      |       |
|---------------------------------|--------|-------|--------|--------|---------------|--------|-----------------------|---------------------|---------------------------|--------|----------------|------|-------|
| Indicative overnight ranges (*) |        |       |        |        | Major Indices |        |                       |                     | Price                     |        |                |      |       |
|                                 | Last   | % Day | Low    | High   |               | Last   | % Day                 | % Year              |                           | Last   | Net Day        |      |       |
| NZD                             | 0.6764 | -0.4  | 0.6726 | 0.6772 | S&P 500       | 2,801  | +0.1                  | 13.9                | Oil (Brent)               | 75.33  | +1.2           |      |       |
| AUD                             | 0.7424 | +0.2  | 0.7368 | 0.7425 | Dow           | 25,019 | +0.4                  | 15.6                | Oil (WTI)                 | 71.01  | +1.0           |      |       |
| EUR                             | 1.1685 | +0.1  | 1.1613 | 1.1687 | Nasdaq        | 7,826  | +0.0                  | 24.0                | Gold                      | 1241.2 | -0.4           |      |       |
| GBP                             | 1.3222 | +0.1  | 1.3103 | 1.3239 | Stoxx 50      | 3,455  | +0.3                  | -2.0                | HRC steel                 | 917.0  | -0.1           |      |       |
| JPY                             | 112.38 | -0.2  | 112.28 | 112.80 | FTSE          | 7,662  | +0.1                  | 3.8                 | CRB                       | 193.7  | -0.1           |      |       |
| CAD                             | 1.3160 | +0.0  |        |        | DAX           | 12,541 | +0.4                  | -0.7                | Wheat Chic.               | 512.5  | +2.2           |      |       |
| NZD/AUD                         | 0.9111 | -0.5  |        |        | CAC 40        | 5,429  | +0.5                  | 3.7                 | Sugar                     | 10.96  | -1.1           |      |       |
| NZD/EUR                         | 0.5789 | -0.3  |        |        | Nikkei        | 22,597 | +1.8                  | 12.3                | Cotton                    | 87.84  | -0.8           |      |       |
| NZD/GBP                         | 0.5116 | -0.4  |        |        | Shanghai      | 2,831  | -0.2                  | -12.1               | Coffee                    | 109.9  | -1.5           |      |       |
| NZD/JPY                         | 76.01  | -0.5  |        |        | ASX 200       | 6,268  | +0.0                  | 8.7                 | WM powder                 | 2980.0 | +0.2           |      |       |
| NZD/CAD                         | 0.8901 | -0.4  |        |        | NZX 50        | 9,024  | +0.4                  | 18.0                | <b>Australian Futures</b> |        |                |      |       |
| NZ TWI                          | 72.76  | -0.4  |        |        |               |        |                       |                     | 3 year bond               | 97.94  | 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  | 2.81   | 2.90   | USD           | 2.83   | -0.02                 | NZGB 6 05/15/21     | 1.94                      | -0.00  | 1 year         | 2.04 | -0.00 |
| AUD                             | 1.50   | 2.02  | 2.08   | 2.81   | AUD           | 2.63   | 0.00                  | NZGB 5 1/2 04/15/23 | 2.17                      | -0.00  | 2 year         | 2.16 | -0.02 |
| NZD                             | 1.75   | 1.95  | 2.16   | 3.03   | NZD           | 2.65   | -0.01                 | NZGB 2 3/4 04/15/25 | 2.47                      | -0.00  | 5 year         | 2.55 | -0.01 |
| EUR                             | 0.00   | 0.06  | -0.17  | 0.87   | GER           | 0.34   | -0.02                 | NZGB 4 1/2 04/15/27 | 2.65                      | -0.01  | 7 year         | 2.78 | -0.01 |
| GBP                             | 0.50   | 0.74  | 1.05   | 1.52   | GBP           | 1.27   | -0.01                 | NZGB 3 04/20/29     | 2.85                      | -0.01  | 10 year        | 3.03 | -0.01 |
| JPY                             | -0.07  | -0.04 | 0.04   | 0.25   | JPY           | 0.04   | 0.00                  | NZGB 3 1/2 04/14/33 | 3.02                      | -0.01  | 15 year        | 3.29 | -0.01 |
| CAD                             | 1.50   | 1.17  | 2.27   | 2.53   | CAD           | 2.13   | -0.02                 | NZGB 2 3/4 04/15/37 | 3.17                      | -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 New York Close

Source: Bloomberg

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