

17 August 2018



Events Round-Up

AU: Employment change, Jul: -3.9k vs. 15k exp.

AU: Unemployment rate, Jul: 5.3% vs. 5.4% exp.

UK: Retail sales ex-auto fuel (y/y%), Jul: 3.7 vs. 2.8 exp.

US: Philly Fed business outlook, Aug: 11.9 vs. 22 exp.

US: Housing starts, Jul: 1,168k vs. 1,260k exp.

Good Morning

Reports yesterday that the US and China would resume trade talks – albeit low level ones – has boosted risk appetite. US equities reversed yesterday's falls, helped also by strong corporate earnings, while commodity prices and most EM currencies have also risen. Amidst a sharp rise in the offshore Chinese Renminbi, the NZD and AUD are amongst the better performing currencies, although the moves have been pretty modest.

News yesterday that Chinese vice commerce minister Wang would lead a delegation to the US for trade talks has boosted both the CNY and broader risk sentiment. With the public consultation on Trump's proposed \$200b of Chinese tariffs due to end on September 5th, Wang will meet with David Malpass, US Treasury Undersecretary in late August. While the trade talks will be undertaken at a lower level of government than the last set of talks in June (headed by Vice Premier Liu at the time) and market hopes for a quick resolution are low, the news provided some respite to both the CNY and emerging markets. Trump's economic advisor Kudlow later welcomed the resumption of talks but cautioned not to "underestimate President Trump's toughness and willingness" to get a good trade deal and resolve differences over alleged Chinese intellectual property theft.

USD/CNY fell around 0.75% from 6.9348 to 6.8853 yesterday while the offshore renminbi (CNH) experienced its largest one day rise in more than a year (over 1%). With the CNY having been approaching the psychologically important 7.0 level against the USD, there also were signs that Chinese authorities were taking steps to lean against further currency weakness yesterday. First, the official USD/CNY fix came in well below market expectations yesterday and then later in the session Reuters reported that the PBOC had placed restrictions on commercial banks' ability to lend yuan offshore, which led to a surge higher in CNH forward points (in effect, making it more expensive to short the CNH).

The strength in the CNY and marginally more optimism around US-China trade has helped the NZD and AUD outperform over the past 24 hours. The NZD currently sits at 0.6585, up around 0.3% on the day, as it continues to consolidate after the sharp sell-off post last week's RBNZ meeting. The AUD is up a similar amount, having also been supported by yesterday's Australian employment report. The market focused on the lower than expected unemployment rate, and brushed off the decline in employment growth in July (which came after an outsized rise the previous month). There was little impact on RBA rate expectations however, with the first hike not fully-priced until 2020. The NZD/AUD cross sits at 0.9070, well within the broader trading range that has prevailed over the past few years. RBA Governor Lowe delivers his semi-annual testimony to parliament today.

The USD indices are marginally weaker on the day, although both the Bloomberg dollar index and DXY remain close to their highest levels since mid-2017. After lambasting the USD's strength in recent times, Trump hinted at a more positive attitude to the currency over Twitter, saying "Money is pouring into our cherished DOLLAR like rarely before, companies earnings are higher than ever, inflation is low & business optimism is higher than it has ever been." A weaker than expected Philly Fed survey and slower housing starts data had little impact on the USD or US rates, which were slightly higher on the day (US 10 year Treasury +1bp to 2.87%).

Elsewhere, the Turkish lira continued its recent recovery, appreciating around 2% against the USD after new finance minister Albayrak told a conference call of 6,000 investors that capital controls were off the agenda and he would ask ministries for budget cuts of between 10 to 30%. Albayrak also said the ministry was working on putting a fiscal rule into legislation. The lira pared some of its earlier gains a few hours ago though after US Treasury Secretary Mnuchin said more tariffs would be forthcoming if Turkey didn't release the US pastor that is under house arrest. The lira is still 15% lower than the end of last month.

Finally, US equities recovered their losses from yesterday amidst the improvement in risk appetite and better corporate earnings results. The S&P500 rose 0.9% while the NASDAQ was 0.5% higher. Retail giant Walmart reported better than expected earnings and sales and boosted its forecasts for the remainder of the year, helping its share price rise by 10%.

nick.smyth@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	PPI Output (q/q%)	2Q		0.2	10:45
AU	RBA Governor Semiannual Testimony				11:30
EC	CPI Core (y/y%)	Jul F	1.1	1.1	21:00
CA	CPI (y/y%)	Jul	2.5	2.5	00:30
CA	CPI Core- Common (y/y%)	Jul	2	1.9	00:30
US	U. of Mich. Sentiment	Aug P	98	97.9	02:00

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	0.6586	+0.3	0.6575	0.6608	CHF	0.9971	+0.4	S&P 500	2,844	+0.9	15.2		Oil (Brent)	71.37	+0.8					
AUD	0.7261	+0.3	0.7251	0.7287	SEK	9.204	-0.0	Dow	25,590	+1.7	16.2		Oil (WTI)	65.43	+0.6					
EUR	1.1367	+0.2	1.1348	1.1409	NOK	8.488	+0.4	Nasdaq	7,820	+0.6	23.2		Gold	1178.7	-0.2					
GBP	1.2712	+0.1	1.2690	1.2754	HKD	7.850	-0.0	Stoxx 50	3,378	+0.6	-3.1		HRC steel	878.0	+0.9					
JPY	110.90	+0.1	110.56	111.12	CNY	6.885	-0.7	FTSE	7,556	+0.8	1.7		CRB	188.4	+0.8					
CAD	1.3159	+0.1			SGD	1.376	-0.3	DAX	12,237	+0.6	-0.2		Wheat Chic.	562.0	+1.9					
NZD/AUD	0.9070	-0.0			IDR	14,593	+0.1	CAC 40	5,349	+0.1	3.3		Sugar	10.30	+0.4					
NZD/EUR	0.5794	+0.1			THB	33.18	-0.4	Nikkei	22,192	-0.1	12.6		Cotton	82.13	+1.3					
NZD/GBP	0.5181	+0.2			KRW	1,130	-0.2	Shanghai	2,705	-0.7	-17.2		Coffee	105.4	-0.5					
NZD/JPY	73.04	+0.5			TWD	30.83	-0.1	ASX 200	6,328	-0.0	9.5		W/M powder	2955.0	+0.0					
NZD/CAD	0.8667	+0.4			PHP	53.46	-0.2	NZX 50	8,999	+0.1	14.3		Australian Futures							
NZ TWI	71.89	+0.1											3 year bond	97.95	-0.02					
													10 year bond	97.44	-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	Net Day		Last	Net Day		Last	Net Day				
USD	2.00	2.31	2.83	2.94	USD	2.87	0.01	USD	2.87	0.01	NZGB 6 05/15/21	1.75	-0.00	1 year	1.98	0.00				
AUD	1.50	1.96	2.04	2.76	AUD	2.56	-0.02	AUD	2.56	-0.02	NZGB 5 1/2 04/15/23	1.95	0.01	2 year	2.05	0.02				
NZD	1.75	1.91	2.05	2.88	NZD	2.41	0.00	NZD	2.41	0.00	NZGB 2 3/4 04/15/25	2.23	0.00	5 year	2.39	0.02				
EUR	0.00	0.06	-0.16	0.87	GER	0.32	0.02	GER	0.32	0.02	NZGB 4 1/2 04/15/27	2.41	0.00	7 year	2.62	0.01				
GBP	0.75	0.80	1.07	1.51	GBP	1.24	0.02	GBP	1.24	0.02	NZGB 3 04/20/29	2.57	0.00	10 year	2.88	0.01				
JPY	-0.05	-0.03	0.05	0.33	JPY	0.10	0.00	JPY	0.10	0.00	NZGB 3 1/2 04/14/33	2.74	0.00	15 year	3.14	0.01				
CAD	1.50	1.17	2.41	2.63	CAD	2.26	-0.01	CAD	2.26	-0.01	NZGB 2 3/4 04/15/37	2.89	0.00							

* 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 07:08

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rate Strategist
+64 4 924 7653

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109

Gavin Friend

Senior Market Strategist
+44 20 7710 1588

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Alex Stanley

Senior Interest Rate Strategist
+61 2 9237 8154

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