

19 July 2018



## Events Round-Up

UK: CPI (y/y%), Jun: 1.9% vs 2.6% exp.

UK: Core CPI (y/y%), Jun: 2.4% vs 2.1% exp.

EZ: Core CPI (y/y%), Jun: 0.9% vs 1% exp.

US: Housing starts, Jun: 1,173 vs 1,320k exp.

## Good Morning

It was another quiet night across markets with volatility remaining very subdued. There wasn't much new from Fed Chair Powell's testimony to Congress but US equities and the 10 year US bond yield are slightly higher.

Fed Chair Powell delivered his testimony to Congress overnight but didn't add much to his comments from the previous day. While core inflation had converged to the Fed's 2% target he noted that the Fed was still "*slightly more worried about lower inflation*". In another slightly dovish remark, Powell said "*we're close to full employment, maybe not quite there*", which seems a little surprising given the US unemployment rate is 4%. There was little reaction to his comments and the consensus is that the Fed will, barring a shock, hike rates twice more this year and adopt a more data-dependent rate policy in 2019. The US 10 year bond yield is up 1bp to 2.87%.

US equities are a touch higher overnight (S&P500 +0.2%), led by the Financials sector after a better than expected earnings report from Morgan Stanley. The S&P500 is now less than 2% from its record high reached earlier this year.

On trade, President Trump said a US-Mexico trade deal was "*getting closer*" and the US administration may seek a deal with Canada at a later date (the Mexican peso is the strongest major currency on the day). Elsewhere, European Commission President Juncker will meet Trump next week to discuss potential reductions in car tariffs, with Economic Advisor Larry Kudlow saying Juncker "*is bringing a very important free-trade offer*." There was little reaction to the US Commerce Department's announcement that it had opened an investigation into whether uranium imports threaten national security.

One of the features of the past few months has been very subdued volatility across asset classes (perhaps with the exception of commodities). The VIX is now below 12, while measures of implied volatility across bonds and currencies are at or near multi-year lows. To an extent, measure of low implied volatility probably reflect the modest moves seen across assets – for instance, the US

10 year Treasury yield has traded an exceptionally narrow 7 basis point range over the past three weeks. While trade tariffs are a clear and obvious threat to the global economy and markets, the broader economic backdrop is one in which global growth is strong, core inflation is slowly edging higher, and central banks are either hiking gradually (like the Fed) or not at all (like the ECB) – i.e. macroeconomic volatility is also low at present. While market volatility can always change abruptly (like we saw earlier this year), for the moment the low volatility environment is helping to support risk assets like equities.

In FX, the US dollar index (DXY) rose close to its year-to-date highs during the London morning before retreating. The DXY is up 0.1% on the day having earlier been as much as 0.45% stronger. There was little reaction to weaker than expected US housing data or the Beige Book released an hour or so ago, which noted that US manufacturers had expressed concern about trade tariffs.

The GBP is again the weakest performing currency in the G10 after headline and core CPI missed expectations. The pound fell to a new year-to-date low of 1.3010 in the wake of the CPI report, although it has since recovered to 1.3060. Despite the move in the currency, the market still assigns around an 80% chance of a BoE rate hike at its meeting next month. UK parliament is due to go into recess next week, returning in early September, although Brexit and UK politics will remain a headwind for the GBP for some time.

The NZD has moved up close to 0.68, supported by the improvement in risk appetite and probably some position squaring after the NZ core inflation surprise on Tuesday (CFTC data showed speculative investors had large net short positions in the NZD). The NZD is the best performing currency in the G10 for the second day running. Local rates markets reversed some of the moves seen after the core inflation upside surprise, with the 2 year swap rate down 2bps and the 10 year rate 4bps lower yesterday.

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## Coming Up

	Period	Cons.	Prev.	NZT
AU Employment Change	Jun	16.5	12	13:30
AU Unemployment Rate	Jun	5.4	5.4	13:30
UK Retail Sales Ex Auto Fuel YoY	Jun	3.7	4.4	20:30
US Philadelphia Fed Business Outlook	Jul	21.5	19.9	00:30

Source: Bloomberg, BNZ.

Foreign Exchange						Equities				Commodities**					
Indicative overnight ranges (*)					Other FX		Major Indices				Price				
	Last	% Day	Low	High		Last	% Day				Last	Net Day			
NZD	0.6796	+0.2	0.6743	0.6805	CHF	0.9993	-0.1	S&P 500	2,814	+0.2	14.4	Oil (Brent)	72.92	+1.1	
AUD	0.7401	+0.2	0.7343	0.7408	SEK	8.865	+0.3	Dow	25,194	+0.3	16.8	Oil (WTI)	68.82	+1.1	
EUR	1.1648	-0.1	1.1602	1.1662	NOK	8.165	+0.2	Nasdaq	7,853	-0.0	23.8	Gold	1227.7	+0.0	
GBP	1.3061	-0.4	1.3010	1.3108	HKD	7.850	+0.0	Stoxx 50	3,485	+0.8	0.2	HRC steel	912.0	-0.8	
JPY	112.83	-0.0	112.71	113.14	CNY	6.719	+0.2	FTSE	7,676	+0.7	3.9	CRB	191.5	+0.2	
CAD	1.3177	-0.1			SGD	1.365	+0.0	DAX	12,766	+0.8	2.7	Wheat Chic.	510.8	-0.3	
NZD/AUD	0.9183	+0.0			IDR	14,414	+0.3	CAC 40	5,447	+0.6	5.3	Sugar	11.08	-0.4	
NZD/EUR	0.5834	+0.3			THB	33.31	-0.0	Nikkei	22,794	+0.4	13.9	Cotton	88.08	-0.3	
NZD/GBP	0.5203	+0.6			KRW	1,132	+0.7	Shanghai	2,787	-0.4	-13.7	Coffee	108.2	-1.1	
NZD/JPY	76.68	+0.2			TWD	30.61	+0.3	ASX 200	6,245	+0.7	8.9	WM powder	2955.0	+0.3	
NZD/CAD	0.8955	+0.1			PHP	53.49	+0.3	NZX 50	8,946	-0.4	15.7	<b>Australian Futures</b>			
NZ TWI	73.25	+0.3										3 year bond	97.9	0.00	
												10 year bond	97.36	0.01	
<b>Interest Rates</b>															
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields						
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last		Last			
USD	2.00	2.34	2.84	2.94	USD	2.87	0.01	NZGB 6 05/15/21	1.95	-0.02	1 year	2.03	-0.02		
AUD	1.50	2.00	2.10	2.83	AUD	2.64	-0.02	NZGB 5 1/2 04/15/23	2.17	-0.02	2 year	2.15	-0.02		
NZD	1.75	1.93	2.13	3.01	NZD	2.67	-0.01	NZGB 2 3/4 04/15/25	2.48	-0.01	5 year	2.56	-0.03		
EUR	0.00	0.06	-0.17	0.86	GER	0.34	-0.00	NZGB 4 1/2 04/15/27	2.67	-0.01	7 year	2.79	-0.04		
GBP	0.50	0.76	1.02	1.48	GBP	1.23	-0.03	NZGB 3 04/20/29	2.86	-0.01	10 year	3.04	-0.04		
JPY	-0.07	-0.04	0.04	0.26	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.04	-0.01	15 year	3.30	-0.04		
CAD	1.50	1.17	2.28	2.54	CAD	2.14	0.02	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 06:58

Source: Bloomberg

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