

19 June 2018



Events Round-Up

NZ: Performance Services Index, May: 56.4 vs. 55.9 prev.

US: NAHB housing index, Jun: 68 vs. 70 exp.

Good Morning

Markets were quiet overnight, with no fresh developments on the US-China trade front and no major data released. Oil prices rose over 2%, partially reversing the falls seen on Friday, on reports that OPEC will agree to only a small increase in production. The NZD has traded a narrow range over the past 24 hours and is slightly lower on the day.

At least to now, there has been only a relatively modest impact on markets from the US decision to impose tariffs on China (outside some weakness in commodities and Asian EMFX). The S&P500 is down 0.3% on the day and remains near its recent highs while the VIX remains below 13, well below levels seen earlier this year. European equity markets are comparatively weaker on the day (Stoxx 600 -0.8%; DAX -1.4%) and have largely reversed their post-ECB rally.

The big mover overnight is oil, with Brent crude up 3% and almost completely reversing its decline from Friday. Brent crude is \$74.50, still some way off the \$80 highs reached last month. The move overnight has been driven by reports that OPEC is considering a smaller 300,000 to 600,000 barrels per day increase to output at its meeting in Vienna on Friday due to opposition by Iran, Iraq and Venezuela. The reported increase in production is much lower than that 1.5m barrels per day suggested by the Russian energy minister last week. Iran said over the weekend these three countries would veto a production increase at the OPEC meeting.

The increase in oil prices has helped US Treasury yields reverse earlier falls and they are now up slightly on the day (US 10 year +0.5bps to 2.92%). US inflation expectations are modestly higher as well. The US yield curve remains near its flattest levels since 2007, with the gap between the 2 year and 10 year Treasury yields at 37bps. Overnight, Atlanta Fed President Bostic said he was comfortable increasing rates to a more neutral policy setting but said he no longer saw upside risks to US growth. He noted that "*optimism [around tax reform] has almost completely faded among my contacts, replaced by concerns about trade policy and tariffs.*"

FX market moves have been reasonably contained. Commodity currencies are again slightly weaker on the day, extending Friday's moves lower, despite the increase in oil prices. Some further weakness in emerging market currencies (the JP Morgan EMFX index is 0.3% lower on the day) and growing concerns about Chinese growth have likely weighed on the AUD, which has fallen 0.3% to 0.7420, near one year lows. The AUD is often seen as a G10 FX proxy for China and we would expect it to continue to underperform if trade tensions between the US and China escalate.

The NZD is down very slightly from Friday night's close of 0.6940 and has traded a relatively tight range overnight. The NZD/AUD has pushed modestly higher again amid the AUD's China-related underperformance and is up to 0.9350 – around where it was before the dovish RBNZ May MPS. The NZD is close to flat on the other major crosses. The focus for the local market this week is GDP on Thursday morning. In the day ahead there will be another Global Dairy Trade auction, with futures markets pointing to a modest fall.

The GBP is down 0.2% with Brexit negotiations and UK political infighting still rumbling along in the background. The FT reports overnight that some British and European officials now expect Brexit negotiations won't be concluded until November or December, with the upcoming EU meeting (June 28-29) unlikely to see much progress. While we still think common sense will prevail and the two sides will finalise a transition agreement for after March 2019, it looks like the negotiations will go down to the wire and Brexit-related uncertainty will persist for the coming months (which in turn may weigh on the GBP). The BoE also meets this week, with no change on rates expected but the market will be tuned into the Bank's outlook; the August meeting is currently around 50% priced for a hike.

In the day ahead, the highlights will be ECB President Draghi's speech at the Sintra conference and the minutes to the RBA's June meeting, although we don't expect much deviation from their recent communication.

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Coming Up

		Period	Cons.	Prev.	NZT
US	Fed's Williams Speaks at NY Fed Bank Culture Conference				07:45
NZ	Westpac Consumer Confidence	2Q		111.2	10:00
AU	RBA June Meeting Minutes				13:30
EC	ECB President Draghi speaks in Sintra, Portugal				20:00
NZ	Dairy Auction Avg. Winning Price MT			3487	06/20
US	Housing Starts	May	1312	1287	00:30

Source: Bloomberg, BNZ.

Foreign Exchange							Equities				Commodities**		
Indicative overnight ranges (*)					Other FX		Major Indices				Price		
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day	
NZD	0.6932	-0.2	0.6922	0.6956	CHF	0.9946	-0.3			Oil (Brent)	75.22	+2.4	
AUD	0.7418	-0.3	0.7414	0.7454	SEK	8.818	+0.4			Oil (WTI)	65.76	+1.1	
EUR	1.1618	+0.1	1.1565	1.1624	NOK	8.130	-0.2			Gold	1281.6	+0.3	
GBP	1.3247	-0.2	1.3226	1.3275	HKD	7.850	+0.0			HRC steel	900.0	-0.4	
JPY	110.52	-0.1	110.38	110.62	CNY	6.439	+0.6			CRB	196.2	-0.0	
CAD	1.3214	+0.2			SGD	1.352	+0.1			Wheat Chic.	521.3	-2.4	
NZD/AUD	0.9345	+0.1			IDR	13,932	+0.4			Sugar	12.28	-0.6	
NZD/EUR	0.5967	-0.2			THB	32.70	+0.1			Cotton	87.77	-2.1	
NZD/GBP	0.5233	+0.1			KRW	1,105	+0.6			Coffee	116.7	-0.8	
NZD/JPY	76.61	-0.4			TWD	30.16	+0.5			WM powder	3200.0	+0.0	
NZD/CAD	0.9160	-0.1			PHP	53.42	+0.2			Australian Futures			
NZ TWI	73.73	-0.1								3 year bond	97.85	0.00	
										10 year bond	97.31	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	2.33	2.82	2.99	USD	2.93	0.01	NZGB 6 05/15/21	2.02	-0.00	1 year	2.10	0.01
AUD	1.50	2.06	2.10	2.88	AUD	2.67	-0.02	NZGB 5 1/2 04/15/23	2.28	-0.01	2 year	2.24	-0.01
NZD	1.75	2.03	2.24	3.13	NZD	2.73	-0.02	NZGB 2 3/4 04/15/25	2.55	-0.02	5 year	2.67	-0.01
EUR	0.00	0.06	-0.17	0.91	GER	0.40	-0.01	NZGB 4 1/2 04/15/27	2.73	-0.02	7 year	2.90	-0.00
GBP	0.50	0.63	1.02	1.56	GBP	1.32	-0.00	NZGB 3 04/20/29	2.89	-0.02	10 year	3.13	-0.01
JPY	-0.06	-0.04	0.05	0.27	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.08	-0.02	15 year	3.39	-0.01
CAD	1.25	1.17	2.23	2.60	CAD	2.21	-0.01	NZGB 2 3/4 04/15/37	3.22	-0.02			

* 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 06:51

Source: Bloomberg

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