

19 September 2018



Events Round-Up

NZ: GDT dairy auction – average winning price: \$2,934 vs. \$2,980 prev.

NZ: GDT dairy auction – whole milk powder winning price: \$2,768 vs. \$2,821 prev.

Good Morning

Yesterday's official announcement that the US would impose tariffs on \$200b Chinese imports has been largely shrugged off by markets. US and Chinese equities have risen while the 10 year US Treasury yield broke above 3%, to its highest level since May. The NZD and AUD have outperformed against a risk-on backdrop.

After much waiting, we finally received official confirmation yesterday morning from President Trump on the tariffs on \$200b Chinese imports. The tariff rate will initially be set at 10%, but stepping up to 25% at the start of next year. China has since announced that they will retaliate with tariffs on \$60b of US imports, at two tariff rates, depending on the goods, of 5% and 10% (China had previously threatened tariff rates of up to 25%).

After initially reacting negatively to Trump's announcement, markets have since bounced back strongly over the past 24 hours. Chinese equities rose sharply, with the CSI300 up 2%, while in the US the S&P500 was 0.7% higher and the NASDAQ 1% higher. The CNY was close to unchanged yesterday, but the (China-sensitive) AUD has been the best performing currency in the G10. The seemingly counterintuitive positive market reaction to the tariff announcements suggests that it was probably priced in to a large extent (the \$200b tariff threat has been in the headlines for months after all).

The key question now for the market is whether there will be further escalation, or scope for negotiations to resume. Overnight Trump tweeted that "*there will be great and fast economic retaliation against China if our farmers, ranchers and/or industrial workers are targeted!*" Trump has previously threatened an additional \$267b in tariffs (covering the remainder of US imports of Chinese goods) if China retaliated, and it remains to be seen how he will respond to China's \$60b in tariff measures. But for now, the market is seemingly content that the event risk has

passed.

Against the risk-on backdrop, the US 10 year Treasury yield moved 6bps higher to 3.04% - its highest level since May (when it peaked at 3.12%). The US yield curve steepened 4bps to 25bps. Yields have moved higher elsewhere as well, with the 10 year German bund up 2bps to 48bps. NZ rates moved higher in sympathy with the global moves yesterday, with the 10 year swap rate up 2.5bps to 2.88%, its highest level since late August, and we should expect a similar move higher in NZ rates today given the overnight moves.

FX market moves over the past 24 hours also have a risk-on flavour to them. The AUD is the best performing currency, up 0.5% against the USD, with the CAD not far behind (likely also supported by the rise in oil prices overnight). Meanwhile, the safe haven Japanese yen and the Swiss franc have both weakened against the USD. The USD indices are up only slightly on the day; the DXY is 0.15% higher but remains towards the lower end of its recent trading range.

The NZD is close to where it was this time yesterday, at 0.6580. Whilst the NZD initially moved higher in line with the improvement in risk sentiment yesterday, it has since retraced most of that move. The NZD/AUD has fallen to 0.9120, with the AUD still far more sensitive to China-specific developments than the NZD. Overnight, the Global Dairy Trade auction overnight showed a 1.3% fall, close to our expectations, with whole milk powder falling 1.8%.

nick.smyth@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Westpac Consumer Confidence	3Q		108.6	09:00
NZ	Current Account GDP Ratio YTD	2Q	-2.9	-2.8	10:45
AU	RBA's Kent Speech in Sydney				13:30
UK	BOE's Haldane speaks in Estonia.				20:00
UK	CPI YoY	Aug	2.4	2.5	20:30
UK	CPI Core YoY	Aug	1.8	1.9	20:30
JN	BOJ 10-Yr Yield Target				19/9
US	Housing Starts	Aug	1235	1168	00:30
EC	ECB's Draghi speaks in Berlin				01:00

Source: Bloomberg, BNZ.

Foreign Exchange						Equities				Commodities**					
Indicative overnight ranges (*)				Other FX		Major Indices				Price					
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6584	+0.1	0.6575	0.6608	CHF	0.9651	+0.3		S&P 500	2,910	+0.7	16.2	Oil (Brent)	79.09	+1.3
AUD	0.7216	+0.5	0.7189	0.7224	SEK	8.908	-0.0		Dow	26,313	+1.0	17.8	Oil (WTI)	69.87	+1.4
EUR	1.1667	-0.1	1.1652	1.1724	NOK	8.159	-0.2		Nasdaq	7,976	+1.0	23.6	Gold	1198.7	-0.2
GBP	1.3136	-0.2	1.3119	1.3172	HKD	7.843	-0.0		Stoxx 50	3,358	+0.4	-4.8	HRC steel	836.0	-0.7
JPY	112.36	+0.5	111.88	112.39	CNY	6.862	+0.1		FTSE	7,300	-0.0	0.6	CRB	190.5	+0.5
CAD	1.2980	-0.5			SGD	1.371	-0.1		DAX	12,158	+0.5	-3.2	Wheat Chic.	529.0	+0.9
NZD/AUD	0.9124	-0.4			IDR	14,855	-0.2		CAC 40	5,364	+0.3	2.6	Sugar	10.52	-0.8
NZD/EUR	0.5643	+0.2			THB	32.56	-0.1		Nikkei	23,421	+1.4	15.4	Cotton	79.15	-2.9
NZD/GBP	0.5012	+0.3			KRW	1,123	-0.3		Shanghai	2,700	+1.8	-19.6	Coffee	95.9	-1.4
NZD/JPY	73.98	+0.6			TWD	30.81	+0.0		ASX 200	6,161	-0.4	7.8	WM powder	2680.0	+0.2
NZD/CAD	0.8546	-0.4			PHP	54.09	-0.2		NZX 50	9,316	+0.5	20.0	Australian Futures		
NZ TWI	71.70	+0.0											3 year bond	97.885	-0.05
													10 year bond	97.31	-0.04

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	2.96	3.10	USD	3.04	0.05	NZGB 6 05/15/21	1.72	0.02	1 year	1.95	0.01
AUD	1.50	1.92	2.07	2.87	AUD	2.66	0.04	NZGB 5 1/2 04/15/23	1.94	0.02	2 year	2.00	0.01
NZD	1.75	1.90	2.00	2.88	NZD	2.42	0.02	NZGB 2 3/4 04/15/25	2.20	0.03	5 year	2.35	0.02
EUR	0.00	0.06	-0.14	0.97	GER	0.48	0.02	NZGB 4 1/2 04/15/27	2.42	0.02	7 year	2.60	0.02
GBP	0.75	0.80	1.13	1.65	GBP	1.57	0.03	NZGB 3 04/20/29	2.60	0.03	10 year	2.88	0.02
JPY	-0.06	-0.04	0.06	0.35	JPY	0.12	-0.00	NZGB 3 1/2 04/14/33	2.79	0.03	15 year	3.13	0.02
CAD	1.50	1.17	2.48	2.76	CAD	2.38	0.04	NZGB 2 3/4 04/15/37	2.94	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 06:43

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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