

20 August 2018



Events Round-Up

NZ: PPI output (q/q%), Q2: 0.9 vs. 0.2 prev.

CA: CPI (y/y%), Jul: 3.0 vs. 2.5 exp.

US: U. of Mich. cons. sent., Aug: 95.3 vs. 98.0 exp.

Good Morning

Commodity currencies outperformed on Friday while the USD was the weakest of the majors, supported by a more positive outlook for US-China trade tensions. The rates market was little changed.

The NZD closed the week on a strong note, at its high for the session and for the week around 0.6635. Following on from the news on Thursday that the US had invited a Chinese delegation to talk about trade, the WSJ published a report suggesting that Chinese and US negotiators were mapping out talks to try to end their trade standoff ahead of planned meetings between President Trump and Xi Jinping at multilateral summits in November. The US Treasury was said to be working on a more refined list of demands that might be more acceptable to China.

The USD was already on the back foot before the article was published late in the session and it weakened further into the close, seeing the USD fall across all the key majors and down 0.5-0.6% for the day. Commodity currencies headed the leaderboard, with the NZD, AUD and CAD all up about 0.7% for the day. The Turkish lira came under pressure again, but unlike at the beginning of the week, there was little contagion effect on Friday. After more analysis, markets have accepted that Turkey is a basket case with limited likely spillover effects for global markets.

US tariffs on an extra \$16bn of Chinese imports come into effect this Thursday, which China will match dollar-for-dollar, and there's still the decision Trump will have to make next month on whether or not to proceed with tariffs on another \$200bn of goods. Politically, this still probably appeals to Trump ahead of the early-November mid-term elections, but once they are out of the way, there is some hope that further tariff impositions can be

avoided and the ones imposed eventually reversed. This sets the scene for potentially chopping trading conditions for the NZD – and markets in general – for the rest of the year.

CAD's performance was supported after Canada CPI inflation was much higher than expected at 3.0%, to reach the top end of the 1-3% target range. The average of the three core measures followed was unchanged at 2.0%. The probability of further Bank of Canada rate hikes increased further, and it looks increasingly likely that the Bank will hike for a fifth time this tightening cycle. The market sees more chance of this at the October than September meeting though.

In other economic news, the University of Michigan US consumer sentiment index unexpectedly fell to its lowest level in almost a year, driven by the "current conditions" component, with the "expectations" index unchanged.

The broad weakness in the USD saw EUR recover all of its losses seen earlier in the week, closing around 1.1440. GBP continues to underperform as attention focuses more on the possibility of a no-deal Brexit, seeing an unconvincing rise to 1.2750.

The bond market was quiet, with the US 10-year rate trading in a 3bp range and ending the session flat at 2.86%. NZ rates barely budged on Friday either.

The week ahead is fairly quiet, with mostly only second tier economic releases. The annual central bank conference at Jackson Hole, Wyoming kicks off late in the week where Fed Chair Powell will be speaking.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
US	Fed's Bostic speaks on US economic outlook			03:00

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	0.6636	+0.8	0.6588	0.6637	CHF	0.9958	-0.1		S&P 500	2,850	+0.3	17.3	Oil (Brent)	71.81	+0.5
AUD	0.7313	+0.7	0.7255	0.7318	SEK	9.153	-0.4		Dow	25,669	+0.4	18.0	Oil (WTI)	65.91	+0.7
EUR	1.1438	+0.5	1.1373	1.1445	NOK	8.454	-0.3		Nasdaq	7,816	+0.1	25.6	Gold	1176.5	+0.0
GBP	1.2749	+0.3	1.2698	1.2753	HKD	7.850	-0.0		Stoxx 50	3,373	-0.1	-2.6	HRC steel	902.0	-0.2
JPY	110.50	-0.4	110.32	110.90	CNY	6.878	-0.1		FTSE	7,559	+0.0	2.3	CRB	188.7	+0.2
CAD	1.3061	-0.7			SGD	1.371	-0.3		DAX	12,211	-0.2	0.1	Wheat Chic.	579.8	+3.2
NZD/AUD	0.9074	+0.0			IDR	14,593	+0.1		CAC 40	5,345	+0.0	3.8	Sugar	10.18	-1.2
NZD/EUR	0.5802	+0.2			THB	33.17	-0.0		Nikkei	22,270	+0.4	14.4	Cotton	81.75	-0.5
NZD/GBP	0.5205	+0.5			KRW	1,125	-0.4		Shanghai	2,669	-1.3	-18.3	Coffee	104.7	-0.6
NZD/JPY	73.33	+0.4			TWD	30.79	-0.1		ASX 200	6,339	+0.2	10.3	WMI powder	2945.0	+0.2
NZD/CAD	0.8667	+0.0			PHP	53.34	-0.2		NZX 50	9,053	+0.6	15.0	Australian Futures		
NZ TWI	72.00	+0.4											3 year bond	97.96	0.01
													10 year bond	97.45	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	2.32	2.82	2.93	USD	2.86	-0.01	NZGB 6 05/15/21	1.75	0.00	1 year	1.97	-0.00		
AUD	1.50	1.95	2.03	2.75	AUD	2.55	-0.01	NZGB 5 1/2 04/15/23	1.96	0.01	2 year	2.05	0.00		
NZD	1.75	1.91	2.05	2.89	NZD	2.41	0.00	NZGB 2 3/4 04/15/25	2.23	0.00	5 year	2.40	0.01		
EUR	0.00	0.06	-0.16	0.87	GER	0.31	-0.02	NZGB 4 1/2 04/15/27	2.41	0.00	7 year	2.63	0.01		
GBP	0.75	0.80	1.07	1.51	GBP	1.24	-0.00	NZGB 3 04/20/29	2.57	0.01	10 year	2.89	0.01		
JPY	-0.06	-0.03	0.05	0.32	JPY	0.10	-0.00	NZGB 3 1/2 04/14/33	2.74	0.00	15 year	3.15	0.01		
CAD	1.50	1.17	2.44	2.67	CAD	2.27	0.01	NZGB 2 3/4 04/15/37	2.90	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: NY close Sat

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

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.