

20 July 2018



Events Round-Up

AU: Employment change, Jun: 50.9k vs 16.5k exp.

AU: Unemployment rate, Jun: 5.4% vs 5.4% exp.

UK: Retail sales ex auto fuel (y/y%), Jun: 3% vs 3.7% exp.

US: Philly Fed business survey, Jul: 25.7 vs 21.5 exp.

Good Morning

The US dollar index made a fresh year-to-date high overnight, before reversing sharply as President Trump said he wasn't happy about the Fed raising rates, which he said put the US at a disadvantage. The CNY made a new low for the year after China took further steps to ease policy. The NZD moved lower overnight, in sympathy with the moves in the CNY.

There were signs of China taking further steps to ease policy yesterday, three weeks after the PBOC cut the reserve ratio requirement for banks. China Business News reported that the PBOC intended to use its Medium-term Lending facility (MLF) to incentivize banks to increase lending and purchase corporate bonds. In addition, the Chinese banking and insurance regulator requested that banks "earnestly implement" actions to reduce borrowing costs for small businesses. The moves were interpreted as a further step in the direction of easier policy measures, with China aiming to combat the slowdown in lending from the shadow banking sector and the potential risks to growth from US tariffs. In response, the USD/CNY fixed above 6.70 for the first time since August last year and moved sharply higher to 6.775, up 0.8% on the day.

The USD strengthened across the board during the London morning, with the USD/CNY appreciation picking up pace and the DXY dollar index making a new high for the year at 95.65. The NZD fell from 0.6780 at the end of the trading day yesterday to a low of 0.6714 in sympathy with the broader USD move and the weakness in the CNY.

The USD quickly reversed course a few hours ago after President Trump told CNBC "I am not happy" about Fed rate rises, which he felt put the US at a "disadvantage" to those countries whose rates were on hold (i.e. Europe and Japan). He added that the CNY was "dropping like a stone". The DXY lost all its intraday gains after the comments, although it has recovered slightly after the White House issued a statement saying the President "respects the independence" of the Fed. The DXY is 0.1% higher on the day at 95.16 as I write while the NZD has

managed to bounce to 0.6745.

There wasn't much reaction in the US interest rate market to Trump's comments, probably because the market understands the Fed is staunchly independent and unlikely to be swayed by political pressure. The market prices around three more rate rises from the Fed, to a funds rate of 2.75%. US Treasury yields are 2 to 3bps lower on the day, but these moves had already taken place before Trump's intervention. The 10 year Treasury yield remains stuck in a very narrow trading range.

Commodity currencies are the worst performers on the day in FX, reflecting further falls in industrial metals prices and some concerns about slowing growth in China. Copper fell another 1.5%, taking its decline since the start of June to more than 17%, while Zinc, Nickel and lead were also lower. The AUD reached a high of 0.7440 after a very strong Australian employment report yesterday, which showed over 50,000 new jobs created last month (most of them full-time). But the fall in commodities and weakness in the CNY saw the AUD fall over 1.5% from this high. The AUD has since recovered slightly to 0.7360, but remains down 0.5% on the day, similar to moves in the other commodity currencies.

In the UK, retail sales disappointed in June, possibly influenced by the timing of the World Cup, and the GBP fell to its lowest level since September last year. GBP/USD is currently 1.30. The market still puts a 77% probability on a BoE rate hike next month. The new Brexit Secretary Dominic Raab met the EU's chief negotiator Barnier for the first time overnight and described the talks as "constructive" but both the UK and EU are stepping up contingency planning in the case no deal can be reached by the end of March next year.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Net Migration SA	Jun		5090	10:45
JN	Natl CPI Ex Fresh Food, Energy YoY	Jun	0.4	0.3	11:30
CA	CPI YoY	Jun	2.3	2.2	00:30
CA	CPI Core- Common YoY%	Jun	1.9	1.9	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	0.6746	-0.7	0.6714	0.6787	CHF	0.9989	-0.0		S&P 500	2,808	-0.3	13.5	Oil (Brent)	72.69	-0.3
AUD	0.7360	-0.5	0.7323	0.7420	SEK	8.912	+0.5		Dow	25,106	-0.4	16.0	Oil (WTI)	69.33	+0.8
EUR	1.1646	+0.1	1.1575	1.1678	NOK	8.225	+0.6		Nasdaq	7,835	-0.2	22.7	Gold	1222.8	-0.4
GBP	1.3017	-0.4	1.2958	1.3078	HKD	7.850	+0.0		Stoxx 50	3,472	-0.4	-0.8	HRC steel	912.0	-0.8
JPY	112.45	-0.4	112.06	113.17	CNY	6.775	+0.8		FTSE	7,684	+0.1	3.4	CRB	191.4	-0.0
CAD	1.3249	+0.6			SGD	1.370	+0.3		DAX	12,686	-0.6	1.9	Wheat Chic.	520.5	+1.6
NZD/AUD	0.9166	-0.2			IDR	14,442	+0.2		CAC 40	5,417	+0.2	3.9	Sugar	10.97	-0.9
NZD/EUR	0.5793	-0.8			THB	33.44	+0.4		Nikkei	22,765	-0.1	13.0	Cotton	87.55	-0.5
NZD/GBP	0.5182	-0.3			KRW	1,133	+0.1		Shanghai	2,773	-0.5	-14.6	Coffee	108.8	+0.4
NZD/JPY	75.86	-1.1			TWD	30.67	+0.2		ASX 200	6,263	+0.3	8.7	WM powder	2950.0	-0.2
NZD/CAD	0.8938	-0.1			PHP	53.59	+0.2		NZX 50	8,918	-0.3	16.2	Australian Futures		
NZ TWI	72.96	-0.4											3 year bond	97.885	-0.01
													10 year bond	97.37	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		Last				
USD	2.00	2.35	2.82	2.92	USD	2.85	-0.02	NZGB 6 05/15/21	1.95	0.00	1 year	2.03	0.00		
AUD	1.50	2.00	2.13	2.83	AUD	2.66	0.02	NZGB 5 1/2 04/15/23	2.16	-0.00	2 year	2.14	-0.01		
NZD	1.75	1.93	2.14	3.02	NZD	2.65	-0.02	NZGB 2 3/4 04/15/25	2.47	-0.01	5 year	2.54	-0.01		
EUR	0.00	0.06	-0.17	0.86	GER	0.33	-0.01	NZGB 4 1/2 04/15/27	2.65	-0.02	7 year	2.78	-0.02		
GBP	0.50	0.75	1.02	1.45	GBP	1.19	-0.04	NZGB 3 04/20/29	2.84	-0.03	10 year	3.02	-0.02		
JPY	-0.07	-0.04	0.04	0.25	JPY	0.04	-0.00	NZGB 3 1/2 04/14/33	3.01	-0.03	15 year	3.28	-0.01		
CAD	1.50	1.17	2.27	2.52	CAD	2.12	-0.03	NZGB 2 3/4 04/15/37	3.15	-0.03					

* 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 07:04

Source: Bloomberg

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