

22 August 2018



Events Round-Up

NZ: Net migration, Jul: 4720 vs. 4840 prev.

NZ: GDT dairy auction, avg. winning price: -3.6%

Good Morning

Stronger risk appetite sees the S&P500 reaching a record high and the NZD touching 0.67 amidst a weaker USD backdrop. Global rates have drifted higher in this environment.

Soon after we went to press yesterday, Reuters reported an interview with President Trump. Trump reiterated previous comments that he was “not thrilled” with Fed Powell raising rates, while adding that he’ll criticise the Fed if it keeps raising rates. He also suggested that China and Europe were manipulating their currencies and he didn’t expect much progress from (low-level) US-China trade talks this week, adding that he has “no time frame” for ending the trade dispute with China.

The market paid more attention to his comments on the Fed and currencies than the likely stalemate in trade talks, sending the USD lower and UST yields lower. While last week Trump seemed unperturbed by the strength of the USD – it reflecting how well the US economy was doing – he would clearly prefer lower rates and a weaker USD. The market reaction likely reflected the long positioning built up in the USD and extreme short positions in US Treasuries. Furthermore, with four vacancies on the Fed’s Board of Governors, Trump can shape its composition towards more dovish-leaning members if he wants to and that might have been a factor in the market reaction.

Last night, China’s response to Trump saying that it manipulated its currency was that “the yuan’s exchange rate is decided by the market”, said a director of the PBoC’s monetary policy department. He said the currency has more flexibility this year and the central bank is confident of keeping the rate “basically stable at a reasonable equilibrium level.”

USD weakness has extended overnight with the DXY down 0.8% for the day and this has helped fuel stronger risk appetite, with the hither-to strength in the USD a key factor behind the angst around emerging markets and their poor performance this year. The S&P500 is up 0.4% and broke through its previous record high set in January. Earlier this week we saw the NZX50 reach a record high (both the capital and gross indices).

The NZD has been on an upward trend since reaching a nadir a week ago, now some 1½ cents higher from that level and taking a peek above 0.67 this morning. The market ignored the weaker than expected GDT dairy auction. It showed average prices falling by 3.6%, with broadly-based price falls across products, and raising the risk of Fonterra downgrading its projected milk payout for the current season. NZX dairy futures show an expected payout for FY19 close to \$6.60, well down from Fonterra’s current \$7 projection.

The AUD rose up through 0.7380 but has slightly underperformed the NZD, seeing NZD/AUD slightly higher at 0.9080. The leadership challenge to PM Turnbull only had a passing impact on the AUD and the stronger NZD performance more likely reflects an adjustment in positioning.

GBP is seeing more love and both it and EUR are up about 1% since this time yesterday. EU Chief Brexit Negotiator Barnier said negotiations were entering their final stage and discussions would occur “continuously” from now on, with talks wrapped by roughly October or several weeks later. Reuters reported that the EU may hold an emergency summit in November. The stronger risk appetite backdrop sees the yen underperforming and even lagging the weak USD. NZD/JPY is up over 1% to 73.9 for the session.

Stronger risk appetite has eased the pain for some from the short squeeze in US Treasuries yesterday. Rates have drifted higher overnight, seeing the 10-year rate at 2.84%, up 1bp from the NZ close and 2bps higher for the day. Dallas Fed President Kaplan wrote an essay indicating that he would favour a pause in the rate-hike cycle once a neutral rate is hit, which is about 3-4 hikes away. He would also be “carefully watching the US Treasury yield curve”, echoing the sentiments expressed by Bostic which we reported on yesterday.

In other news, US Commerce Secretary Ross indicated that the White House had pushed out the timetable for auto tariffs, saying that the delay was “in view of the negotiations” ongoing with the European Commission, Mexico and Canada. He declined to set a new timetable, but noted that the law used to justify the report into potential security threats posed by the auto sector doesn’t require any findings until next year. CAD has underperformed the other commodity currencies and despite modest gains in oil prices as well, has barely made any ground against the USD. NZD/CAD is 0.7% higher at 0.8725.

In the day ahead, NZ retail sales data is expected to show only a modest gain in real sales for Q2 although leading indicators have recently been unreliable and that is reflected in the wide range of estimates from 0.0 to 0.8% q/q. The economic calendar remains light with the FOMC minutes released tomorrow morning of some interest, perhaps.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Real retail sales (q/q%)	Q2	0.3	0.1	10:45
AU	Construction work (q/q%)	Q2	0.8	0.2	13:30
US	Existing home sales (m)	Jul	5.4	5.38	02:00
US	FOMC meeting minutes				06:00

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	0.6692	+0.8	0.6654	0.6701	CHF	0.9852	-0.6		S&P 500	2,868	+0.4	18.1	Oil (Brent)	72.58	+0.5
AUD	0.7366	+0.4	0.7341	0.7382	SEK	9.100	-0.6		Dow	25,845	+0.3	19.1	Oil (WTI)	67.35	+1.3
EUR	1.1574	+0.8	1.1492	1.1601	NOK	8.406	-0.5		Nasdaq	7,862	+0.5	26.5	Gold	1192.6	+0.5
GBP	1.2909	+0.9	1.2812	1.2925	HKD	7.849	-0.0		Stoxx 50	3,412	+0.5	-0.3	HRC steel	898.0	-0.4
JPY	110.36	+0.3	110.01	110.55	CNY	6.847	-0.2		FTSE	7,566	-0.3	3.4	CRB	190.0	+0.5
CAD	1.3044	-0.0			SGD	1.366	-0.2		DAX	12,384	+0.4	2.6	Wheat Chic.	547.8	-2.6
NZD/AUD	0.9085	+0.3			IDR	14,574	-0.1		CAC 40	5,409	+0.6	6.3	Sugar	10.17	+0.8
NZD/EUR	0.5782	-0.1			THB	32.67	-0.8		Nikkei	22,220	+0.1	14.6	Cotton	83.50	+0.5
NZD/GBP	0.5184	-0.2			KRW	1,119	-0.4		Shanghai	2,734	+1.3	-16.9	Coffee	101.8	+0.9
NZD/JPY	73.85	+1.0			TWD	30.71	-0.2		ASX 200	6,284	-1.0	9.3	WM powder	2975.0	+0.8
NZD/CAD	0.8729	+0.8			PHP	53.32	-0.0		NZX 50	9,116	+0.1	15.9	Australian Futures		
NZ TWI	72.44	+0.5											3 year bond	97.945	-0.04
													10 year bond	97.43	-0.06
Interest Rates							NZ Government Bonds				NZ Swap Yields				
Rates	Swap Yields				Benchmark 10 Yr Bonds		Last			Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	2.00	2.31	2.80	2.91	USD	2.84	0.02	NZGB 6 05/15/21	1.76	0.01	1 year	1.97	0.00		
AUD	1.50	1.96	2.05	2.76	AUD	2.54	0.01	NZGB 5 1/2 04/15/23	1.97	0.01	2 year	2.03	-0.01		
NZD	1.75	1.90	2.04	2.88	NZD	2.43	0.02	NZGB 2 3/4 04/15/25	2.25	0.02	5 year	2.38	-0.00		
EUR	0.00	0.06	-0.15	0.88	GER	0.33	0.03	NZGB 4 1/2 04/15/27	2.43	0.02	7 year	2.62	-0.00		
GBP	0.75	0.80	1.08	1.54	GBP	1.27	0.04	NZGB 3 04/20/29	2.59	0.02	10 year	2.87	-0.01		
JPY	-0.06	-0.04	0.05	0.32	JPY	0.09	-0.02	NZGB 3 1/2 04/14/33	2.76	0.02	15 year	3.13	-0.01		
CAD	1.50	1.17	2.42	2.64	CAD	2.27	0.01	NZGB 2 3/4 04/15/37	2.91	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 06:54

Source: Bloomberg

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