

23 August 2018



## Events Round-Up

NZ: Real retail sales (q/q%), Q2: 1.1 vs. 0.3 exp.

AU: Construction work (q/q%), Q2: 1.6 vs. 0.8 exp.

US: Existing home sales (m), Jul: 5.34 vs. 5.40 exp.

## Good Morning

There has been little change in currencies overnight. Market reaction to yesterday's US political drama has been modest and trading conditions have been light. The NZD has spent the last 24 hours hovering around 0.6700, while US equities and bond markets show little movement.

Soon after we went to press yesterday, Trump's former personal lawyer Cohen pleaded guilty to illegal campaign finance charges and implicated Trump, saying that "the candidate" directed him to commit a crime. Soon after, Trump's former campaign chairman Manafort was convicted of eight counts of tax and bank fraud charges and this was seen as a "win" for Special Counsel Mueller in his investigation of electoral interference regarding the Presidential election. That now takes the tally to five – the number of people closely associated with President Trump who have pleaded or been found guilty of felonies, and it's not a good look for the President.

Political commentators were labelling yesterday as Trump's worst day of his presidency, with Cohen's testimony raising the chance of a Presidential impeachment should the Democrats gain control of the House at the mid-term elections. This gives an added incentive for Trump to campaign for a Republican victory. Trump's response has been predictable, accusing Cohen of fabricating testimony.

While all this political drama makes good TV and interesting reading, the market has taken the news in its stride. There was a mini risk-off move straight after the announcements, but it hasn't been sustained. S&P500 futures spent all of the Asian session in negative territory, but after a soft US open, the index is flat for the day.

The USD is down just 0.1% for the day on the three indices we monitor. After the FOMC minutes were released this morning, the initial market reaction was a slightly weaker USD, but the move wasn't sustained. The first headline that came out was "Fed saw trade, housing and emerging markets as downside risks". Overnight data

showed US existing home sales weaker than expected, falling to a 2-year low. Housing market indicators remain a soft spot in an otherwise robust US economy.

The minutes also showed "Many Fed officials saw another hike likely appropriate soon". The takeout is that a September hike should be taken as a given (it is nearly fully priced), while further hikes, particularly through next year, shouldn't be taken for granted and will depend on how the downside risks play out. As we get further into the tightening cycle, the uncertainty about the rate path will increase. The minutes noted that "a number of participants emphasized the considerable uncertainty in estimates of the neutral rate of interest...continuing to provide an explicit assessment of the federal funds rate relative to its neutral level could convey a false sense of precision." The US Treasury curve is little changed for the day, with the 10-year rate down less than 1bp at 2.82%.

The NZD is at pretty much the same level as this time yesterday, just under the 0.67 mark. We got to as high as 0.6720 yesterday after much stronger than expected retail sales data for Q2. This was the first hard evidence that economic growth in Q2 was solid, despite weaker levels of confidence and the media beat-up on the economy. We left our GDP forecast for the quarter at 0.8% q/q, with the stronger data removing some potential downside risk. If growth comes out much stronger than the RBNZ estimated, as we suspect, it increases the hurdle rate for any potential near-term easing in monetary policy. The NZ rates market was little moved, with the OIS, swaps and government curves all showing little change for the day.

NZD/AUD shifted up to a higher plane after the retail sales data and it has sustained that move, sitting around 0.9110 this morning. The stronger NZ data and political uncertainty in Australia – with PM Turnbull's position tenuous ahead of another likely vote to oust him – has given an excuse for traders to cover short NZD/AUD positions.

There isn't much to say about the other major currencies, which have shown only modest movements. In other news, yesterday Politico reported that a US-Mexico NAFTA deal would be signed Thursday, but overnight a spokesperson for the US Trade Representative's office said there was no deal yet and that major issues remain. Sources say that progress has been made during five weeks of discussions between the US and Mexico on issues including rules for cars, but there's no broader agreement on reshaping NAFTA.

Crude oil rose by 3% after US data showed a big decline in crude inventories.

Tonight sees the release of a number of PMI indicators across Europe and the US.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

Coming Up

	Period	Cons.	Prev.	NZT
NZ	NZ to sell \$150m 2025 bonds			14:05
GE	Aug	56.5	56.9	19:30
GE	Aug	54.3	54.1	19:30
EC	Aug	55.2	55.1	20:00
EC	Aug	54.4	54.2	20:00
US	Aug	55.0	55.3	01:45
US	Aug	55.8	56.0	01:45
US	Jul	645	631	02:00
EC	Aug	-0.7	-0.6	02:00

Source: Bloomberg, BNZ.

Foreign Exchange								Equities				Commodities**		
Indicative overnight ranges (*)				Other FX				Major Indices				Price		
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day
NZD	0.6693	+0.2	0.6682	0.6712	CHF	0.9835	-0.2	S&P 500	2,862	-0.0	16.7	Oil (Brent)	74.71	+2.9
AUD	0.7343	-0.3	0.7334	0.7370	SEK	9.069	-0.3	Dow	25,748	-0.3	17.6	Oil (WTI)	67.88	+3.1
EUR	1.1586	+0.1	1.1553	1.1623	NOK	8.352	-0.6	Nasdaq	7,883	+0.3	25.2	Gold	1196.3	+0.3
GBP	1.2910	+0.1	1.2868	1.2936	HKD	7.850	+0.0	Stoxx 50	3,420	+0.2	-1.0	HRC steel	901.0	+0.3
JPY	110.57	+0.2	110.21	110.62	CNY	6.842	-0.1	FTSE	7,574	+0.1	2.6	CRB	191.1	+0.6
CAD	1.3004	-0.3			SGD	1.367	+0.1	DAX	12,386	+0.0	1.3	Wheat Chic.	545.3	-0.0
NZD/AUD	0.9115	+0.3			IDR	14,574	-0.1	CAC 40	5,421	+0.2	5.6	Sugar	10.18	+0.1
NZD/EUR	0.5777	-0.2			THB	32.67	+0.0	Nikkei	22,363	+0.6	15.1	Cotton	82.52	-0.0
NZD/GBP	0.5184	-0.1			KRW	1,119	+0.0	Shanghai	2,715	-0.7	-17.4	Coffee	100.9	-0.9
NZD/JPY	74.00	+0.5			TWD	30.73	+0.1	ASX 200	6,266	-0.3	9.2	WM powder	2850.0	-4.2
NZD/CAD	0.8704	-0.3			PHP	53.49	+0.3	NZX 50	9,163	+0.5	16.3	<b>Australian Futures</b>		
NZ TWI	72.49	+0.3										3 year bond	97.965	0.02
												10 year bond	97.46	0.02
Interest Rates								NZ Government Bonds				NZ Swap Yields		
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last				Last			
USD	2.00	2.31	2.79	2.89	USD	2.82	-0.01	NZGB 6 05/15/21	1.76	-0.01	1 year	1.97	0.00	
AUD	1.50	1.96	2.03	2.75	AUD	2.54	0.01	NZGB 5 1/2 04/15/23	1.97	0.00	2 year	2.03	-0.00	
NZD	1.75	1.92	2.03	2.85	NZD	2.42	-0.00	NZGB 2 3/4 04/15/25	2.24	-0.00	5 year	2.37	-0.01	
EUR	0.00	0.06	-0.15	0.87	GER	0.34	0.01	NZGB 4 1/2 04/15/27	2.42	-0.00	7 year	2.61	-0.01	
GBP	0.75	0.80	1.08	1.53	GBP	1.27	0.01	NZGB 3 04/20/29	2.58	-0.00	10 year	2.86	-0.01	
JPY	-0.06	-0.03	0.05	0.32	JPY	0.10	0.01	NZGB 3 1/2 04/14/33	2.76	-0.00	15 year	3.12	-0.01	
CAD	1.50	1.17	2.43	2.64	CAD	2.26	-0.00	NZGB 2 3/4 04/15/37	2.91	-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: NZT 06:53

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.