

23 July 2018



### Events Round-Up

NZ: Net migration, Jun: 4,840 vs 5,080 prev.

JP: CPI ex fresh food & energy (y/y%), Jun: 0.2% vs 0.4% exp.

CA: CPI (y/y%), Jun: 2.5% vs 2.3% exp.

CA: CPI – common measure (y/y%), Jun: 1.9% vs 1.9% exp.

### Good Morning

President Trump was at it again on Friday night, blaming China and the EU for manipulating their currencies and interest rates and again questioning the Fed for raising rates. The USD fell sharply, extending the moves from Thursday after Trump's previous round of comments. The NZD has moved up above 0.68, helped by the broad-based USD weakness and a rebound in commodities.

The USD was weaker across the board on Friday, with the catalyst being another barrage of tweets from the US President. Trump tweeted that *"China, the European Union and others have been manipulating their currencies and interest rates lower, while the U.S. is raising rates while the dollars gets stronger and stronger with each passing day - taking away our big competitive edge."* While the market already understands the President would prefer a lower USD and doesn't like high interest rates, his comments still caused the DXY dollar index to fall 0.7%. The DXY is now 1.25% lower than the year-to-date high of 95.65 reached on Thursday night.

The question is what can the President do if he wants a weaker USD, besides lambast trade partners (and his own central bank) on Twitter? The Fed is an independent central bank and is unlikely to be swayed from its tightening plans for this year, while many other central banks are constrained from raising interest rates by low inflation in their countries. Treasury Secretary Mnuchin noted over the weekend that the US Treasury is monitoring the depreciation in the CNY and would *"very carefully review whether they have manipulated the currency"* – the Treasury's report is due on October 15th. But regardless of the Treasury's conclusion, the US has already started imposing tariffs on China. While we're not convinced the President's comments alone will change the direction of the currency market, it has nevertheless probably helped establish a short-term top in the USD.

The NZD was the top performing currency on Friday, rising

almost a percent against the USD to close the week at 0.6810. Besides the broad-based USD weakness, a rebound in commodity prices (the LME metals index was up 1.3%) on Friday helped boost the commodity currencies, including the NZD. CFTC data released over the weekend showed speculative investors continued to hold near record short positions in the NZD. CAD was just behind the NZD on the currency leader board, boosted by stronger than expected retail sales and CPI data.

The Japanese yen rose almost 1% on Friday, with USD/JPY falling to 111.41 (down from a high of 113.17 on Thursday night). The rise in the JPY was aided by reports that the BoJ might debate policy tweaks at its monetary policy meeting next week, including changes to its yield curve control programme (where the BoJ targets a 0% 10 year yield). Reuters reported that BoJ officials were concerned about the side-effects of its policies – including on bank profitability – and were considering tweaks to make its policy mix more sustainable. Japanese CPI ex food and energy is running at 0.2% YoY and it is likely the BoJ will need to again push out the date when they expect inflation will reach their 2% target.

The BoJ reports led to a 5bp rise in the 10 year Japanese government bond future during US trading hours, an unusually large move for Japanese interest rates. The 10 year Japanese government bond yield will likely open around 0.09% today, close to levels where the BoJ has intervened to preserve its yield curve control policy in the past. The Japanese moves contributed to a steepening in the US yield curve, with the 10 year Treasury yield up 4bps on the day to 2.89% while the 2 year yield was unchanged. St Louis Fed President Bullard said President Trump's comments wouldn't affect the FOMC's rate decisions, although they likely added to the steepening pressure on the day.

US equities ended Friday around flat, despite Trump telling CNBC "I'm ready to go to 500", in reference to imposing tariffs on all Chinese imports. To date, the US administration has put tariffs on \$34b of Chinese imports, and is investigating a further \$200b worth of imports for tariffs of 10%. Larry Kudlow, Trump's economic adviser, noted the November mid-term elections wouldn't stop the President on trade issues adding that Trump didn't see equities as a barrier given they are over 30% higher since he took office in 2016. A strong earnings report from Microsoft helped support US equities, although the German DAX fell around 1%, weighed down by the auto sector. EC President Juncker and Trump meet this week,

with Europe hoping to avert possible US tariffs on European auto imports.

Finally, on Brexit, EU chief negotiator Michael Barnier said the UK's recent White Paper opened "the way to a constructive discussion" but said there were still major questions to be resolved. Eurosceptic backbencher Jacob Rees-Mogg subsequently accused Barnier and the EU of being "mafia-like". Most commentators think the UK will still need to make major concessions to the White Paper to reach an agreement with the EU. Over the weekend, new Brexit secretary Dominic Raab suggested that the UK could refuse to pay its £39b divorce bill if it doesn't get a trade deal, seemingly rowing back on an agreement with the EU last December. Despite talk of a "no deal" Brexit growing, the market prices an 85% chance of a BoE rate hike next month, with MPC member Tenreyro saying on Friday the UK economy had bounced back from a snow-related soft patch earlier in the year, suggesting she might be willing to vote for a hike in August.

[nick.smyth@bnz.co.nz](mailto:nick.smyth@bnz.co.nz)

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	0.6809	+1.0	0.6746	0.6818	CHF	0.9923	-0.6		S&P 500	2,802	-0.1	13.3	Oil (Brent)	73.07	+0.7
AUD	0.7415	+0.7	0.7354	0.7431	SEK	8.852	-0.7		Dow	25,058	-0.0	16.1	Oil (WTI)	68.26	+1.4
EUR	1.1724	+0.7	1.1633	1.1739	NOK	8.179	-0.7		Nasdaq	7,820	-0.1	22.4	Gold	1231.1	+0.6
GBP	1.3136	+0.9	1.2998	1.3140	HKD	7.850	+0.0		Stoxx 50	3,460	-0.3	0.2	HRC steel	919.0	+0.8
JPY	111.41	-0.9	111.39	112.50	CNY	6.770	-0.1		FTSE	7,679	-0.1	3.0	CRB	192.6	+0.6
CAD	1.3145	-1.0			SGD	1.363	-0.6		DAX	12,561	-1.0	2.6	Wheat Chic.	533.0	+2.4
NZD/AUD	0.9183	+0.3			IDR	14,495	+0.4		CAC 40	5,398	-0.6	5.5	Sugar	11.12	+1.4
NZD/EUR	0.5808	+0.3			THB	33.33	-0.4		Nikkei	22,698	-0.3	12.9	Cotton	87.08	-0.5
NZD/GBP	0.5183	+0.1			KRW	1,134	+0.1		Shanghai	2,829	+2.0	-12.6	Coffee	110.7	+1.7
NZD/JPY	75.86	+0.0			TWD	30.71	+0.1		ASX 200	6,286	+0.4	9.8	WM powder	2955.0	+0.2
NZD/CAD	0.8950	+0.0			PHP	53.44	-0.3		NZX 50	8,956	+0.4	16.7	<b>Australian Futures</b>		
NZ TWI	73.31	+0.6											3 year bond	97.875	-0.02
													10 year bond	97.34	-0.04
Interest Rates					Benchmark 10 Yr Bonds				NZ Government Bonds			NZ Swap Yields			
	Rates		Swap Yields			Last	Net Day		Last		Last		Last		
	Cash	3Mth	2 Yr	10 Yr	USD	2.89	0.06	NZGB 6 05/15/21	1.93	-0.02	1 year	2.02	-0.01		
USD	2.00	2.34	2.83	2.96	AUD	2.62	-0.04	NZGB 5 1/2 04/15/23	2.14	-0.03	2 year	2.14	0.00		
AUD	1.50	1.99	2.12	2.86	NZD	2.61	-0.04	NZGB 2 3/4 04/15/25	2.44	-0.03	5 year	2.53	-0.02		
NZD	1.75	1.92	2.15	2.99	GER	0.37	0.04	NZGB 4 1/2 04/15/27	2.61	-0.04	7 year	2.75	-0.03		
EUR	0.00	0.06	-0.16	0.89	GBP	1.23	0.05	NZGB 3 04/20/29	2.78	-0.05	10 year	2.99	-0.03		
GBP	0.50	0.76	1.05	1.50	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	2.95	-0.05	15 year	3.25	-0.03		
JPY	-0.07	-0.04	0.05	0.30	CAD	2.18	0.07	NZGB 2 3/4 04/15/37	3.09	-0.06					
CAD	1.50	1.17	2.28	2.58											

\* 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 New York Close

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 person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** 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. 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.

**USA DISCLAIMER:** 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.

**National Australia Bank Limited is not a registered bank in New Zealand.**