

23 May 2018



## Events Round-Up

Nothing of note.

## Good Morning

Market movements have been small on a day with no economic releases and only a few snippets of news.

Commodity currencies got a boost last evening after there were signs of more thawing in US-China trade tensions but those gains have been unwound. China moved to reduce its import tariffs on cars from 25% to 15%, ironically a move that will benefit German and Japanese car manufacturers (and improve their trade balances) than US manufacturers. Meanwhile Trump is working on a proposal to reprieve Chinese telecommunications maker ZTE Corp, after it was forced to shut down when the US penalised the company for violating sanctions against Iran and North Korean.

The car tariff news saw the NZD climb up to as high as 0.6975 in early London trading but there has been a steady decline since, retreating to 0.6930, about the same level it was this time yesterday. AUD broke up through 0.76 but has largely followed the same path, seeing it settle around 0.7575 and now flat for the day. The news on car tariffs supported base metal and other commodity prices. Bloomberg's commodity price index reached a 2½-year high and is up five days in a row. This positive dynamic is helping support commodity currencies against a backdrop of lower NZ-US and AU-US interest rate spreads. NZD/AUD is relatively flat around the 0.9150 mark.

In other news, some further doubt has emerged whether President Trump will meet North Korean leader Kim Jong-Un next month with Trump suggesting that there's a "very substantial chance" it won't work out. He added that "If it doesn't happen, maybe it will happen later."

Other currency movements have been small as well, with EUR, GBP and JPY relatively flat for the session. Italy's President is exerting his power and is taking his time in considering whether to give the nod to the populist coalition government. Doubts have emerged whether the first proposed Prime Minister Conte will be endorsed. He's an unknown academic law professor with little political experience and seen to be a puppet for the populist leaders. On a more negative note, a pro EU-exit economist Savona has been tipped as Italy's Finance Minister.

The net result has been better price action in Italian bonds, with the 10-year rate down 5bps and the flow out of safe-haven German bunds seeing Germany's 10-year rate up 4bps to 0.56%. As we saw yesterday, US rates have ignored these moves, with the 10-year Treasury rate tightly range-bound between 3.05-3.08%.

EUR was stronger after the China car tariff news, moving to as high as 1.1830, but this has since been unwound. A similar pattern was seen in GBP. Resident BoE dove Vlieghe shied away from his usual dovish comments in a reappointment hearing and was happy to outline a view of one or two rate hikes over the next three years, suggesting that he might have moved to the hawkish camp. This temporarily supported GBP but comments by Saunders and Carney gave the impression of being in no hurry to raise rates so the move wasn't sustained.

The day ahead might prove to be a little more interesting but we're not holding our breath. There's not much to go on during local trading hours but tonight sees the first readings of PMIs across Europe and the US. UK CPI inflation is expected to show some further slight slippage. RBA Governor Lowe's speech should be as neutral as ever, while FOMC meeting minutes tomorrow morning round out the session. There will be some focus on the additional language of inflation "symmetry", but that horse has been well and truly flogged to death so we'd be surprised if there was much of a market reaction.

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## Coming Up

		Period	Cons.	Prev.	NZT
GE	Markit manufacturing PMI	May	57.9	58.1	19:30
GE	Markit services PMI	May	53.0	53.0	19:30
EC	Markit manufacturing PMI	May	56.1	56.2	20:00
EC	Markit services PMI	May	54.7	54.7	20:00
AU	RBA's Lowe gives speech in Sydney				20:00
UK	Core CPI (y/y%)	Apr	2.2	2.3	20:30
US	Markit manufacturing PMI	May	56.5	56.5	01:45
US	Markit services PMI	May	55	54.6	01:45
US	New home sales ('000)	Apr	679	694	02:00
EC	Consumer confidence	May	0.4	0.4	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	0.6930	-0.2	0.6921	0.6975	CHF	0.9938	-0.4			S&P 500	2,735	+0.1	14.2	Oil (Brent)	79.31	+0.6
AUD	0.7579	-0.0	0.7566	0.7605	SEK	8.685	+0.1			Dow	24,943	-0.3	19.4	Oil (WTI)	71.90	-0.2
EUR	1.1780	-0.1	1.1757	1.1830	NOK	8.050	-0.0			Nasdaq	7,399	+0.2	20.6	Gold	1291.9	+0.1
GBP	1.3433	+0.0	1.3413	1.3492	HKD	7.850	+0.0			Stoxx 50	3,587	+0.4	0.3	HRC steel	878.0	-0.5
JPY	110.98	-0.1	110.80	111.19	CNY	6.368	-0.3			FTSE	7,877	+0.2	5.1	CRB	206.1	+0.2
CAD	1.2808	+0.1			SGD	1.339	-0.1			DAX	13,170	+0.7	4.2	Wheat Chic.	542.3	+2.6
NZD/AUD	0.9144	-0.2			IDR	14,142	-0.3			CAC 40	5,640	-0.1	6.0	Sugar	12.15	+0.4
NZD/EUR	0.5883	-0.1			THB	32.02	-0.5			Nikkei	22,960	-0.2	17.1	Cotton	87.01	-1.3
NZD/GBP	0.5159	-0.3			KRW	1,077	-0.8			Shanghai	3,214	+0.0	5.0	Coffee	120.9	+0.5
NZD/JPY	76.91	-0.3			TWD	29.91	-0.3			ASX 200	6,042	-0.7	4.9	WMI powder	3190.0	-0.3
NZD/CAD	0.8876	-0.1			PHP	52.28	-0.3			NZX 50	8,613	-0.0	16.6	<b>Australian Futures</b>		
NZ TWI	72.79	-0.4												3 year bond	97.755	0.00
														10 year bond	97.13	0.00

  

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	1.75	2.33	2.81	3.10	USD	3.07	0.01	NZGB 6 05/15/21	2.01	-0.01	1 year	2.06	0.00
AUD	1.50	1.95	2.12	3.03	AUD	2.86	-0.02	NZGB 5 1/2 04/15/23	2.33	-0.01	2 year	2.21	0.00
NZD	1.75	1.98	2.21	3.22	NZD	2.83	-0.00	NZGB 2 3/4 04/15/25	2.63	-0.01	5 year	2.71	-0.00
EUR	0.00	0.06	-0.13	1.03	GER	0.56	0.04	NZGB 4 1/2 04/15/27	2.83	-0.00	7 year	2.96	-0.01
GBP	0.50	0.62	1.05	1.68	GBP	1.52	0.05	NZGB 3 04/20/29	3.02	-0.00	10 year	3.22	-0.01
JPY	-0.07	-0.03	0.05	0.28	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	3.21	-0.00	15 year	3.49	-0.01
CAD	1.25	1.17	2.38	2.84	CAD	2.49	0.01	NZGB 2 3/4 04/15/37	3.37	-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 06:42

Source: Bloomberg

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