

25 July 2018



Events Round-Up

EC: Manufacturing PMI, Jul: 55.1 vs 54.7 exp.

EC: Services PMI, Jul: 54.4 vs 55.1 exp.

US: Manufacturing PMI, Jul: 55.5 vs 55.1 exp.

US: Services PMI, Jul: 56.2 vs 56.5 exp.

Good Morning

Global equities moved higher overnight, supported by more positive earnings results and China's recent policy easing measures. Bond yields stabilized, while FX moves were also modest. EU President Juncker meets Trump tonight to discuss trade.

Market moves have a risk-on tone over the past 24 hours, with most equity benchmarks and hard commodity prices higher. China's Shanghai Composite index rose 1.6%, as the market continued to digest the shift towards easier policy in China. In addition to the PBOC's measures to add liquidity and encourage banks to lend more to small businesses and buy corporate bonds, China's State Council on Monday stated that fiscal policy should be "more proactive." While a big stimulus was ruled out, fiscal spending is now expected to pick up over the remainder of the year, with a number of new projects to be rolled out. Meanwhile, the State Information Center chief economist said China can "appropriately" cut the reserve ratio requirement again later this year. The recently announced Chinese policy measures, signalling a tilt towards easier fiscal and monetary policy, have helped boost Chinese equities almost 5% since Friday. Hard commodity prices have also benefited over recent days, reflecting the improved market sentiment, with Copper rising almost 3% overnight.

In the US, the S&P 500 gave up some of its early session gains, but remains 0.3% higher on the day. Meanwhile, the NASDAQ made a new record high, supported by better than expected earnings from Alphabet (Google) after the bell yesterday, although it too has retreated and is now down slightly. Ahead of the much-anticipated meeting between EU President Juncker and US President Trump tonight, where the two will discuss trade, Trump tweeted "Tariffs are the greatest!" and suggested his confrontational approach had brought other countries (like the EU) to the negotiating table.

The best performing currency on the day is the Australian dollar, up almost 0.5%, on the back of higher commodity prices and a more positive tone around China. The CNY itself is also marginally stronger on the day, with the USD/CNY just below 6.80, although it remains near its weakest levels since June last year. The NZD is a little higher than this time yesterday, as it continues to consolidate above support levels around 0.67.

The EUR is slightly lower than this time yesterday, with the European manufacturing PMI increasing slightly while the Services equivalent showed a small fall. The manufacturing PMI remains well below the levels reached late last year, indicative of the European economy losing some momentum, but it remains at healthy levels overall. The ECB meets tomorrow night, and no major policy announcements are expected this time around. Draghi is likely to be questioned on the ECB's policy on reinvesting maturing bonds amid speculation that the ECB might consider skewing reinvestments to the long-end of the curve, where possible, to maintain the duration of its portfolio. €180b of bonds held by the ECB mature in 2019, equivalent to an average monthly run-rate of €15b, so the ECB will retain a sizeable presence in the government bond market even after QE officially comes to an end.

Bond yields were reasonably stable overnight, after relatively large rises over the preceding two days. The 10 year Treasury yield is down 1bp at 2.95%. The 10 year JGB remained at 0.075% although the 30 year JGB moved another 3bps higher. The NZ swaps curve steepened yesterday, with the 10 year rate up 3.5bps – tracking moves offshore the previous session – while the 2 year rate was unchanged. Australian CPI is the focus for the local market in the day ahead.

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Coming Up

	Period	Cons.	Prev.	NZT
AU CPI YoY	2Q	2.2	1.9	13:30
AU CPI Trimmed Mean YoY	2Q	1.9	1.9	13:30
AU CPI Weighted Median YoY	2Q	1.9	2	13:30
GE IFO Business Climate	Jul	101.5	101.8	20:00
US New Home Sales	Jun	668	689	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	0.6801	+0.2	0.6769	0.6819	CHF	0.9939	+0.2	S&P 500	2,814	+0.3	13.9		Oil (Brent)	73.34	+0.4
AUD	0.7417	+0.5	0.7360	0.7434	SEK	8.832	-0.3	Dow	25,197	+0.6	17.1		Oil (WTI)	68.44	+0.8
EUR	1.1685	-0.1	1.1655	1.1717	NOK	8.183	-0.2	Nasdaq	7,829	-0.2	22.1		Gold	1234.1	-0.1
GBP	1.3137	+0.3	1.3072	1.3159	HKD	7.847	-0.0	Stoxx 50	3,483	+0.8	0.9		HRC steel	916.0	+0.0
JPY	111.19	-0.1	110.96	111.45	CNY	6.793	-0.1	FTSE	7,709	+0.7	4.5		CRB	193.1	+0.3
CAD	1.3157	-0.1			SGD	1.364	-0.1	DAX	12,689	+1.1	3.9		Wheat Chic.	529.3	-0.5
NZD/AUD	0.9169	-0.2			IDR	14,545	+0.4	CAC 40	5,434	+0.5	6.0		Sugar	11.19	+0.8
NZD/EUR	0.5820	+0.3			THB	33.38	-0.1	Nikkei	22,510	+0.5	12.8		Cotton	86.70	-0.0
NZD/GBP	0.5177	-0.0			KRW	1,135	+0.4	Shanghai	2,906	+1.6	-10.4		Coffee	111.0	-0.7
NZD/JPY	75.62	+0.1			TWD	30.71	+0.2	ASX 200	6,266	+0.6	9.4		WMI powder	2970.0	+0.5
NZD/CAD	0.8948	+0.1			PHP	53.39	-0.2	NZX 50	8,901	+0.3	15.4		Australian Futures		
NZ TWI	73.32	+0.1											3 year bond	97.835	0.00
													10 year bond	97.29	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		Last			
USD	2.00	2.34	2.85	3.00	USD	2.95	-0.01	NZGB 6 05/15/21	1.93	0.00	1 year	2.02	-0.00		
AUD	1.50	1.97	2.12	2.89	AUD	2.72	0.05	NZGB 5 1/2 04/15/23	2.16	0.02	2 year	2.15	-0.00		
NZD	1.75	1.92	2.14	3.06	NZD	2.65	0.02	NZGB 2 3/4 04/15/25	2.48	0.02	5 year	2.57	0.02		
EUR	0.00	0.06	-0.16	0.90	GER	0.40	-0.01	NZGB 4 1/2 04/15/27	2.65	0.02	7 year	2.81	0.03		
GBP	0.50	0.77	1.08	1.52	GBP	1.28	0.00	NZGB 3 04/20/29	2.82	0.01	10 year	3.06	0.04		
JPY	-0.07	-0.04	0.04	0.29	JPY	0.09	0.00	NZGB 3 1/2 04/14/33	2.98	0.02	15 year	3.32	0.03		
CAD	1.50	1.17	2.33	2.63	CAD	2.22	0.00	NZGB 2 3/4 04/15/37	3.12	0.01					

* 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 06:47

Source: Bloomberg

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