

25 June 2018



Events Round-Up

NZ: Net migration, May: 5090 vs. 4,930 prev.
JN: CPI ex-fresh food (y/y%), May: 0.7 vs. 0.7 exp.
GE: Manufacturing PMI, Jun: 55.9 vs. 56.3 exp.
GE: Services PMI, Jun: 53.9 vs. 52.2 exp.
EC: Manufacturing PMI, Jun: 55.0 vs. 55.0 exp.
EC: Services PMI, Jun: 55.0 vs. 53.8 exp.
CA: CPI (y/y%), May: 2.2 vs. 2.6 exp.
CA: Core CPI (y/y%), May: 1.9 vs. 1.9 exp.
CA: Retail sales (m/m%), Apr: -1.2 vs. 0.0 exp.

Good Morning

The NZD and AUD ended the week on a positive note on a day where the USD struggled to perform against the majors. Rates were little changed for the day.

The NZD ended the week at 0.6910, up 0.6% on Friday with much of the gain during local trading hours, and a tight range ensuing in overnight trading – so a decent rally from Thursday's low of 0.6826, which also happened to be the low for the year. As usual, local factors weren't in play, with the USD softer across the board, meeting some resistance to push on ahead after its recent strong run. There were various reports of some key White House officials behind the scenes trying to restart talks with China to avoid a trade war and this might have been a factor on Friday.

Furthermore, CFTC data released for the period ending 19 June showed a net long USD dollar stance of nearly 135k contracts, the highest since April 2017 and a big change from the short positioning that has prevailed for some time. It indicates a much bigger hurdle for the broadly based USD recovery seen since mid-April to continue.

OPEC+ announced that it would raise crude oil production by one million barrels a day starting next month, although the actual increase is expected to be around 600,000 barrels a day, due to some producers being unable to increase output. It all looked like a bit of a fudge, with no details on which countries would increase production or by how much. The reality is that most of the group aren't in a position to increase production at all and the market's reaction was a 3½-4½% increase in Brent and WTI prices. Rising oil prices supported the AUD which saw it close up 0.8% to 0.7440 and seeing NZD/AUD slip to 0.9290. CAD didn't benefit from higher oil prices to the same extent,

with soft retail sales and CPI data being the focus. The probability of another Bank of Canada rate hike next month slipped from 65% to 54% according to the OIS market.

EUR got a boost after stronger than expected PMI data for the important services sector. This broke the trend of weaker key activity indicators and adds some weight to the view that the recent soft patch was only temporary. EUR rose to as high as 1.1675, well up from Thursday's low of just above 1.15. Later in the session, the currency peeled off after Trump tweeted a threat of placing a 20% tariff on imported cars from the EU unless the region removed its tariffs and trade barriers. The common currency closed the week closer to 1.1650, with NZD/EUR up slightly to 0.5930.

US rates traded a tight range and ended the day unchanged, near the lows of the session, with the 10-year rate at 2.89%.

Yesterday, the PBoC announced that it would cut the reserve ratio requirement for large commercial banks by 0.5% and cut reserve requirements for smaller banks. This action will free up over \$100bn in capital. Larger banks will be required to use the funds towards debt-to-equity swaps while smaller banks can use the funds to extend credit. This easing in monetary policy follows signs of softer growth momentum in China and some market concern about the impact of US import tariffs.

This morning, the FT reports that the Trump administration has decided "to restrict Chinese investment in US companies and start-ups in sectors from aerospace to robotics as it prepares to deploy its latest weapon in the escalating trade war with Beijing". It is set to come in a series of restrictions on inbound Chinese investment that Trump has ordered the US Treasury to draft and release this week.

So as the new week begins, the focus will remain on the US-China trade war saga and apart from that the economic calendar is fairly light for the day ahead. The key local release this week will be the RBNZ's OCR Review on Thursday, but it should pass with little reaction, with the Bank decisively on hold for some time. The OIS market doesn't price in a rate hike until beyond September 2019, more than 15 months away. On the global calendar, US PCE deflator data and euro-area CPI data towards the end of the week will be of some moderate interest.

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Coming Up

	Period	Cons.	Prev.	NZT
GE IFO expectations	Jun	98.0	98.5	20:00
US New Home Sales ('000)	May	667	662	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	0.6910	+0.6	0.6890	0.6920	CHF	0.9881	-0.4			S&P 500	2,755	+0.2	13.0	Oil (Brent)	75.55	+3.4
AUD	0.7440	+0.8	0.7392	0.7444	SEK	8.857	-0.4			Dow	24,581	+0.5	14.9	Oil (WTI)	68.58	+4.6
EUR	1.1651	+0.4	1.1614	1.1675	NOK	8.095	-0.4			Nasdaq	7,693	-0.3	22.8	Gold	1267.4	+0.0
GBP	1.3261	+0.2	1.3246	1.3315	HKD	7.846	+0.0			Stoxx 50	3,442	+1.1	-2.9	HRC steel	902.0	+0.2
JPY	109.97	-0.0	109.80	110.22	CNY	6.505	+0.2			FTSE	7,682	+1.7	3.5	CRB	197.5	+1.6
CAD	1.3269	-0.3			SGD	1.359	+0.0			DAX	12,580	+0.5	-1.2	Wheat Chic.	504.3	-0.5
NZD/AUD	0.9288	-0.2			IDR	14,086	-0.1			CAC 40	5,387	+0.7	2.3	Sugar	12.05	+1.5
NZD/EUR	0.5931	+0.2			THB	32.93	+0.1			Nikkei	22,517	-0.8	11.8	Cotton	85.43	+2.7
NZD/GBP	0.5211	+0.4			KRW	1,108	-0.4			Shanghai	2,890	+0.5	-8.5	Coffee	117.0	+0.6
NZD/JPY	75.99	+0.6			TWD	30.29	-0.1			ASX 200	6,225	-0.1	8.9	WM powder	3175.0	+0.3
NZD/CAD	0.9169	+0.3			PHP	53.29	-0.4			NZX 50	8,999	+0.0	19.1	Australian Futures		
NZ TWI	73.58	+0.3											3 year bond	97.89	0.00	
													10 year bond	97.35	0.00	
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		Last			
USD	2.00	2.34	2.81	2.96	USD	2.89	-0.00	NZGB 6 05/15/21	2.03	-0.01	1 year	2.12	0.00			
AUD	1.50	2.11	2.09	2.83	AUD	2.65	-0.02	NZGB 5 1/2 04/15/23	2.28	-0.02	2 year	2.25	-0.00			
NZD	1.75	2.04	2.25	3.12	NZD	2.74	-0.01	NZGB 2 3/4 04/15/25	2.56	-0.01	5 year	2.66	-0.02			
EUR	0.00	0.06	-0.17	0.89	GER	0.34	0.00	NZGB 4 1/2 04/15/27	2.74	-0.01	7 year	2.88	-0.02			
GBP	0.50	0.66	1.06	1.56	GBP	1.32	0.04	NZGB 3 04/20/29	2.94	-0.01	10 year	3.12	-0.02			
JPY	-0.07	-0.05	0.05	0.26	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.13	-0.00	15 year	3.38	-0.03			
CAD	1.25	1.17	2.15	2.53	CAD	2.13	-0.02	NZGB 2 3/4 04/15/37	3.28	-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: NY close Sat morn

Source: Bloomberg

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