

25 May 2018



Events Round-Up

NZ: Trade balance (\$m), Apr: 263 vs. 198 exp.

GE: GfK Consumer confidence, Jun: 10.7 vs. 10.8 exp.

UK: Retail sales ex auto fuel (m/m%), Apr: 1.5 vs. 0.1 exp.

US: Existing home sales (m), Apr: 5.46 vs. 5.55 exp.

Good Morning

Overnight market moves have been fairly modest, with a hint of USD weakness, slightly weaker equity markets and further downside pressure on global rates.

After a series of hostile statements coming out of North Korea recently, President Trump cancelled next month's planned summit with the country. He didn't rule out a meeting in the future. The odds of the historic meeting happening had diminished recently and the little market reaction there was to the announcement was fleeting. Guess we can now add US-North Korea tensions into the mix of news over coming months, but the market is learning not to overreact to any apparent hostilities.

During the local trading session yesterday, on Trump's orders the US said that it was investigating possible tariffs on imports of cars and trucks on national security grounds, invoking the same law that was used to apply tariffs on steel and aluminium. We're sceptical that tariffs on autos will see the light of day and see the threat as a typical Trump negotiating tool, particularly with NAFTA negotiations still ongoing. The investigation kicks off a fairly long-winded process so any tariffs in this area would still be a long way off.

In currency markets JPY and CHF have been the best performers overnight and over the past 24 hours, although movements have been fairly modest. Safe haven flows into bond markets over recent days, a reflection of the risks around Turkey, Italy, North Korea and global trade tensions have continued and these have been a factor in supporting JPY this week. USD/JPY traded sub 109 after Trump cancelled the US-North Korea summit, and has since recovered to 109.30. NZD/JPY is back below 76 and is verging on breaking down through critical medium-term support levels. Our forecasts show a sustained break lower over coming months and into next year on a positive JPY view.

Germany 10-year bunds have reached a fresh low for the year, down 4bps to 0.47%, even against a backdrop of steady Italian bond yields. Lower European rates have helped drive US 10-year rates down through the 3% mark.

The rate almost got down to 2.95% overnight before recovering to the current level of 2.98%, around the same level as at the NZ close. US 2-year rates have sustained the move lower we saw after yesterday's FOMC meeting minutes. The market saw them as dovish, with the market reacting to the message that the FOMC saw any overshoot on inflation above 2% as "helpful" in anchoring inflation expectations. The 2-year rate has fallen another 2bps to 2.51%, following on from yesterday's 4bps fall.

The NZD has remained stuck in a trading range this week of less than 1-cent and currently sits at 0.6930. The AUD has also been stuck in a 1-cent range this week and that sees NZD/AUD continuing to hover around 0.9150. CAD has been the weakest of the majors, not helped by the threat of auto tariffs amidst ongoing NAFTA negotiations. A 1-1½% fall in oil prices hasn't helped either. Russia signalled that at the next OPEC+ meeting, some discussion will take place on phasing out the historic supply curbs that have helped reduce global inventory levels and drive prices higher. NZD/CAD is up 0.6% for the day to 0.8930.

GBP found some support after UK retail sales were much stronger than expected in April, bouncing back after the "beast from the east" storm depressed sales in March. Yesterday the Times ran an article suggesting that UK PM May was planning to ask the EU for a second transition period to run until 2023 to avoid a hard border in Ireland. The government has since denied any truth to that report. May's Brexit war cabinet remains split on the two options for the UK's future trading relationship with the EU. EUR is also a little stronger against the USD.

NZ's yield curve flattened yesterday, with the short end underpinned by domestic forces, namely a steady monetary policy outlook, and the long end dragged down in yield by global forces. The government's tender of 2025 bonds went well, with bid-cover of 4 and going at nearly 1bp under the mid-rate at the time. It suggests that demand for NZ bonds remains strong despite trading below US rates.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
JN	Tokyo CPI ex-fresh food, energy (y/y%)	May	0.3	0.3	11:30
GE	IFO expectations	May	98.5	98.7	20:00
US	Durable goods orders (m/m%)	Apr	-1.3	2.6	00:30
US	Durables ex transportation (m/m%)	Apr	0.5	0.1	00:30

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	0.6931	+0.2	0.6908	0.6935	CHF	0.9908	-0.4		S&P 500	2,729	-0.2	13.5	Oil (Brent)	79.09	-1.2
AUD	0.7578	+0.2	0.7551	0.7582	SEK	8.745	-0.0		Dow	24,811	-0.4	18.1	Oil (WTI)	71.00	-1.5
EUR	1.1727	+0.3	1.1693	1.1750	NOK	8.085	-0.0		Nasdaq	7,421	-0.1	20.4	Gold	1304.4	+1.2
GBP	1.3386	+0.3	1.3351	1.3422	HKD	7.848	-0.0		Stoxx 50	3,522	-0.6	-1.8	HRC steel	882.0	+0.1
JPY	109.28	-0.7	108.96	109.77	CNY	6.378	-0.2		FTSE	7,717	-0.9	2.7	CRB	206.1	-0.3
CAD	1.2888	+0.4			SGD	1.339	-0.3		DAX	12,855	-0.9	1.7	Wheat Chic.	549.8	-0.1
NZD/AUD	0.9146	-0.0			IDR	14,133	-0.5		CAC 40	5,548	-0.6	3.9	Sugar	12.38	+0.2
NZD/EUR	0.5910	-0.0			THB	31.98	-0.3		Nikkei	22,437	-1.1	13.2	Cotton	87.35	+0.5
NZD/GBP	0.5178	-0.1			KRW	1,080	-0.1		Shanghai	3,155	-0.5	1.5	Coffee	120.6	+1.0
NZD/JPY	75.74	-0.5			TWD	29.92	-0.1		ASX 200	6,037	+0.1	4.3	W/M powder	3235.0	+0.6
NZD/CAD	0.8933	+0.7			PHP	52.56	+0.2		NZX 50	8,591	+0.4	15.6	Australian Futures		
NZ TWI	72.89	-0.0											3 year bond	97.79	0.00
													10 year bond	97.20	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	Last	Last				
USD	1.75	2.33	2.74	3.01	USD	2.98	-0.02	NZGB 6 05/15/21	2.00	0.00	1 year	2.05	0.00		
AUD	1.50	1.94	2.10	2.97	AUD	2.81	-0.03	NZGB 5 1/2 04/15/23	2.30	-0.02	2 year	2.20	0.00		
NZD	1.75	1.98	2.20	3.15	NZD	2.77	-0.04	NZGB 2 3/4 04/15/25	2.58	-0.03	5 year	2.66	-0.02		
EUR	0.00	0.06	-0.15	0.97	GER	0.47	-0.04	NZGB 4 1/2 04/15/27	2.77	-0.04	7 year	2.90	-0.02		
GBP	0.50	0.62	1.00	1.59	GBP	1.40	-0.04	NZGB 3 04/20/29	2.95	-0.04	10 year	3.15	-0.03		
JPY	-0.07	-0.03	0.05	0.28	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.13	-0.04	15 year	3.42	-0.03		
CAD	1.25	1.17	2.33	2.76	CAD	2.41	-0.03	NZGB 2 3/4 04/15/37	3.29	-0.04					

* 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 07:00

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

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