

26 July 2018



## Events Round-Up

- NZ: Trade balance, Jun: -\$113m vs \$200m exp.
- AU: CPI (y/y%), Q2: 2.1% vs 2.2% exp.
- AU: Trimmed mean CPI (y/y%), Q2: 1.9% vs 1.9% exp.
- AU: Weighted median CPI (y/y%), Q2: 1.9% vs 1.9% exp.
- GE: IFO Business climate, Jul: 101.7 vs 101.5 exp.
- US: New home sales, Jun: 631k vs 668k exp.

## Good Morning

US equities moved higher overnight, helped in part by some conciliatory comments from President Trump at a press conference with EU President Juncker. The USD weakened across the board, but remains within recent trading ranges. Against a backdrop of positive risk sentiment, the NZD has made further modest gains.

Ahead of their much-anticipated meeting on trade, EU President Juncker and US President Trump gave a joint press conference a short time ago, with Trump saying “we expect something very positive” to come from the trade talks. Trump added that he wanted a “level playing field for our farmers, for our manufacturers, for everybody.” While the press conference was full of pleasantries, the verdict is still out on whether the EU can avert Trump’s planned auto tariffs.

The Washington Post had earlier reported that the US Commerce Department was considering a range of options to address Trump’s concern about car imports, but Trump’s advisors believed his preference was to use tariffs. Meanwhile, EU Trade Commissioner Malmstrom warned that the EU was preparing a list of US goods worth \$20 billion for retaliatory tariffs, if Trump goes down the route of imposing auto tariffs.

The initial market reaction to the Juncker-Trump press conference was reasonably positive, despite the lack of new information, with US equities extending gains made earlier in the session. The S&P500 is up 0.4%, with the NASDAQ up 0.6% to a new record high. The S&P500 is now less than 1.5% from its own record level, reached in late January, despite growing concern around trade tensions. The rise in equities came despite sharp falls in US car manufacturers GM and Fiat Chrysler after both companies downgraded their earnings estimates for the remainder of the year. GM cited higher raw material costs, and in particular the higher cost of steel and aluminium as a result of tariffs, for its profit downgrade. Facebook reports earnings after the market close today,

with Amazon reporting tomorrow.

Most currencies generally remain range-bound. The USD is weaker across the board the past 24 hours, with the Bloomberg DXY falling 0.4%. The initial positive equity market reaction to the Trump-Juncker press conference was mirrored in FX markets, with the USD dropping in response to the headlines. Economic data continues to be largely overshadowed, with no market reaction to weaker than expected US home sales data or the German IFO.

The NZD has pushed on to 0.6825, supported by the broad-based USD weakness, positive tone to risk markets and some stability in the CNY. The NZD is now approaching the top of its recent 0.6690 – 0.6860 trading range that has been in place for the last month. NZ merchandise trade data released yesterday showed a surprise trade deficit in June but to little market reaction. The domestic market is focused on the labour market report released next week.

The AUD initially softened yesterday after headline CPI inflation came in marginally lower than expectations. Both the RBA’s core measures of inflation met expectations (1.9% y/y%) and with inflation some way below the 2.5% mid-point and Australian unemployment still above 5%, the expectation is that the RBA will be on hold for an extended period. The AUD has since regained its post-CPI losses overnight. Media continue to report on more targeted easing measures in China; overnight the PBOC was reported to have eased counter-cyclical capital requirements for banks in an attempt to boost lending.

Bond yields have been reasonably stable for the second day running. The 10 year Treasury yield is down 1bp, and the US 2s10s yield curve has flattened back to 28bps. There were limited moves in Japanese government bonds ahead of the BoJ’s monetary policy meeting next week. Local swap rates fell around 1bp yesterday.

In the day ahead, the ECB is meeting but the market focus will likely be on headlines from the Trump-Juncker trade discussions.

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

## Coming Up

	Period	Cons.	Prev.	NZT	
EC	ECB Deposit Facility Rate	-0.4	-0.4	23:45	
EC	ECB President Draghi holds Press Conference in Frankfurt			00:30	
US	Advance Goods Trade Balance	Jun	-66.9	-64.8	00:30
US	Durables Ex Transportation	Jun P	0.5	0	00:30
US	Cap Goods Orders Nondef Ex Air	Jun P	0.5	0.3	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	0.6826	+0.4	0.6790	0.6833	CHF	0.9926	-0.1		S&P 500	2,833	+0.4	14.4	Oil (Brent)	73.91	+0.7
AUD	0.7436	+0.2	0.7392	0.7444	SEK	8.784	-0.4		Dow	25,252	+0.0	16.8	Oil (WTI)	69.23	+1.1
EUR	1.1700	+0.1	1.1664	1.1712	NOK	8.155	-0.3		Nasdaq	7,896	+0.7	23.1	Gold	1241.2	+0.5
GBP	1.3174	+0.2	1.3133	1.3181	HKD	7.846	-0.0		Stoxx 50	3,468	-0.4	-0.1	HRC steel	887.0	-0.2
JPY	110.83	-0.3	110.67	111.31	CNY	6.770	-0.3		FTSE	7,658	-0.7	3.0	CRB	194.7	+0.8
CAD	1.3054	-0.8			SGD	1.360	-0.2		DAX	12,579	-0.9	2.6	Wheat Chic.	561.8	+6.0
NZD/AUD	0.9180	+0.2			IDR	14,475	-0.5		CAC 40	5,426	-0.1	5.1	Sugar	11.19	-0.1
NZD/EUR	0.5834	+0.2			THB	33.23	-0.4		Nikkei	22,614	+0.5	12.8	Cotton	87.97	+1.4
NZD/GBP	0.5181	+0.1			KRW	1,126	-0.8		Shanghai	2,904	-0.1	-10.6	Coffee	111.0	+0.0
NZD/JPY	75.65	+0.0			TWD	30.61	-0.3		ASX 200	6,248	-0.3	8.2	WMI powder	2975.0	+0.8
NZD/CAD	0.8911	-0.4			PHP	53.29	-0.2		NZX 50	8,934	+0.4	15.9	<b>Australian Futures</b>		
NZ TWI	73.41	+0.1											3 year bond	97.87	0.04
													10 year bond	97.32	0.03
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	2.00	2.33	2.85	2.99	USD	2.94	-0.01	NZGB 6 05/15/21	1.92	-0.02	1 year	2.00	-0.01		
AUD	1.50	1.97	2.09	2.86	AUD	2.68	-0.04	NZGB 5 1/2 04/15/23	2.14	-0.02	2 year	2.14	-0.01		
NZD	1.75	1.92	2.13	3.04	NZD	2.62	-0.03	NZGB 2 3/4 04/15/25	2.45	-0.03	5 year	2.56	-0.01		
EUR	0.00	0.06	-0.16	0.89	GER	0.40	-0.00	NZGB 4 1/2 04/15/27	2.62	-0.03	7 year	2.80	-0.01		
GBP	0.50	0.78	1.09	1.52	GBP	1.27	-0.00	NZGB 3 04/20/29	2.78	-0.03	10 year	3.05	-0.01		
JPY	-0.07	-0.04	0.04	0.29	JPY	0.07	-0.01	NZGB 3 1/2 04/14/33	2.95	-0.03	15 year	3.31	-0.01		
CAD	1.50	1.17	2.36	2.67	CAD	2.25	0.03	NZGB 2 3/4 04/15/37	3.09	-0.03					

\* 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 07:04

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.**