

26 June 2018



Events Round-Up

GE: IFO expectations, Jun: 98.6 vs. 98.0 exp.

US: New Home Sales ('000), May: 689 vs. 667 exp.

Good Morning

Global equity markets have been rattled by focus on escalating US-China trade tensions but there has been limited spillover for currencies and bond markets.

Trade, trade, and trade. That summarises the newsflow over the past 24 hours with a number of headlines around the simmering trade tensions. Yesterday we mentioned an FT report that suggested imminent US curbs on Chinese investment. Later reports fleshed out more detail on this, with an announcement due on 29 June on the limits of Chinese investment that the US will place on certain industries, as well as the possibility of export controls on sensitive products. An early morning tweet by Trump added to the tensions, as he suggested US reciprocity to any trade barriers that the country currently faces unless they are removed.

In overnight news, (1) the WSJ's lead article is a report of President Xi telling a group of 20 mostly American and European multinational chief executives last week that Beijing plans to strike back against US trade policy; (2) China and the EU will team up to oppose trade protectionism and promote globalisation, setting up a working group to modernise the WTO; (3) there are talks of behind the scenes clashes between US trade advisor Navarro, who prefers a hardline approach to trade and US Treasury Secretary Mnuchin, who favours a softer approach; and (4) Harley Davidson plans to shift production for EU destinations from the US to international facilities to avoid retaliatory EU tariffs initiated last week.

In general, over recent months the market has taken a fairly relaxed attitude to the rising trade tensions but concern seems to be now growing that ultimately it might lead to a weaker global economic outlook. European equity markets were down by over 2% and the S&P500 is currently down 1.8%. With this backdrop, commodity currencies have underperformed but movements have been modest. The AUD is the worst performing, down 0.4% to 0.7405. The NZD spent most of the night below 0.69 but it has since recovered to around that level.

Safe-havens JPY and EUR have outperformed, both up in the order of 0.5%. EUR is back up through 1.17, now having unwound about half of the fall seen post the ECB meeting a week and a half ago. There was little reaction to Germany's IFO index, which showed further slippage in the business climate index, as expected, while the expectations index was steady, slightly beating expectations. Ongoing negative headlines about Brexit haven't had much impact on GBP, which is a touch higher. BMW warns Brexit could force UK plant closures, following news last week of other companies voicing similar concerns about the uncertainty caused by Brexit, including Airbus.

Of note in FX markets, it looks like the PBoC is prepared to engineer a weaker currency in light of recent softer credit and activity data, and possible negative impact from the US-China trade war. USD/CNY has pushed up through 6.54, its highest level for the year. The CNY against a basket of currencies was on a decisive upward trend from August through to May, rising by nearly 6% and has unwound a third of that gain in the space of two weeks. A weaker currency is a tool at the disposal of China to counteract Trump's trade measures, although the PBoC needs to be careful that it doesn't spook the market and trigger resurgent capital outflows.

Bond market reaction to the trade news has been well contained. The US 10-year rate fell about 2bps during the local trading session and yields have been flat to slightly higher since, currently 2.87%. That move supported slightly lower NZ rates yesterday, with longer term swap rates down by 1bp and longer term government bond yields down in the order of 2-3bps.

In the day ahead the calendar remains light, with a couple of Fed speakers out tomorrow morning. Focus no doubt will remain on further developments in the trade war.

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Coming Up

	Period	Cons.	Prev.	NZT
US Conf. Board cons. confid.	Jun	128.0	128.0	02:00
US Fed's Bostic speaks in Birmingham, Alabama				05:00
US Fed's Kaplan speaks in Houston				05:45

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	0.6900	-0.1	0.6885	0.6914	CHF	0.9862	-0.2		S&P 500	2,715	-1.7	11.3	Oil (Brent)	74.74	-1.2
AUD	0.7406	-0.5	0.7396	0.7437	SEK	8.862	+0.0		Dow	24,241	-1.8	13.3	Oil (WTI)	68.30	-0.7
EUR	1.1710	+0.5	1.1629	1.1707	NOK	8.113	+0.2		Nasdaq	7,517	-2.7	20.0	Gold	1265.6	-0.1
GBP	1.3284	+0.2	1.3221	1.3290	HKD	7.847	+0.0		Stoxx 50	3,369	-2.1	-4.9	HRC steel	902.0	+0.2
JPY	109.40	-0.5	109.38	109.69	CNY	6.541	+0.6		FTSE	7,510	-2.2	1.2	CRB	195.5	-1.1
CAD	1.3298	+0.2			SGD	1.363	+0.3		DAX	12,270	-2.5	-3.6	Wheat Chic.	491.3	-2.7
NZD/AUD	0.9317	+0.3			IDR	14,159	+0.5		CAC 40	5,284	-1.4	0.3	Sugar	12.00	-0.4
NZD/EUR	0.5892	-0.6			THB	32.98	+0.1		Nikkei	22,338	-0.8	10.8	Cotton	84.20	+1.1
NZD/GBP	0.5194	-0.3			KRW	1,117	+0.9		Shanghai	2,859	-1.1	-10.2	Coffee	117.2	+0.2
NZD/JPY	75.49	-0.6			TWD	30.38	+0.3		ASX 200	6,210	-0.2	8.6	WMI powder	3160.0	-0.5
NZD/CAD	0.9176	+0.1			PHP	53.45	+0.3		NZX 50	8,996	-0.0	18.4	Australian Futures		
NZ TWI	73.55	+0.0											3 year bond	97.9	0.00
													10 year bond	97.37	0.02
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					
USD	2.00	2.34	2.79	2.95	USD	2.88	-0.01	NZGB 6 05/15/21	2.03	-0.00	1 year	2.13	0.01		
AUD	1.50	2.11	2.10	2.82	AUD	2.63	-0.02	NZGB 5 1/2 04/15/23	2.26	-0.02	2 year	2.25	-0.00		
NZD	1.75	2.03	2.25	3.10	NZD	2.72	-0.02	NZGB 2 3/4 04/15/25	2.54	-0.02	5 year	2.65	-0.01		
EUR	0.00	0.06	-0.17	0.89	GER	0.33	-0.01	NZGB 4 1/2 04/15/27	2.72	-0.02	7 year	2.87	-0.01		
GBP	0.50	0.66	1.04	1.53	GBP	1.29	-0.03	NZGB 3 04/20/29	2.92	-0.02	10 year	3.11	-0.02		
JPY	-0.07	-0.05	0.04	0.25	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.10	-0.02	15 year	3.36	-0.02		
CAD	1.25	1.17	2.13	2.48	CAD	2.10	-0.03	NZGB 2 3/4 04/15/37	3.25	-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 06:49

Source: Bloomberg

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