

27 July 2018



Events Round-Up

EZ: ECB deposit facility rate: -0.4% vs -0.4% exp.

US: Trade balance, Jun: -\$68.3b vs -\$67b exp.

US: Durable goods orders (m/m%), Jun: 1% vs 3% exp.

US: Capital goods orders – non-defence ex air (m/m%), Jun: 0.6% vs 0.5% exp.

Good Morning

It's been a busy past 24 hours. Global equity markets got a boost from Trump and Juncker's agreement to hold off on tariffs but the positive sentiment was partially dented by a 20% fall in Facebook shares after its earnings results. The EUR fell after Draghi confirmed that the ECB wouldn't raise rates until after next summer. The NZD has moved lower in sympathy with the EUR and remains firmly range-bound for now.

After we sent this report out yesterday, EU President Juncker and US President Trump held an unscheduled press conference at the White House where they said they had agreed to hold off on any new tariffs while the two sides negotiated a trade deal. Trump proclaimed "We had a big day, very big" and said the agreement marked a "new phase" in the trade talks. The EU also promised to buy more soybeans and LNG from the US. Heading into the meeting, expectations were low that Juncker could persuade Trump to hold back from putting tariffs on European auto imports – so the agreement, although vague, represented a positive market surprise and finally some good news on the trade front. The S&P500, which was already up 0.4% on the day, jumped another 0.5% into the market close. Likewise, the EUR appreciated from 1.17 to 1.1740.

The positive sentiment from the Trump-Juncker agreement was almost immediately dented by Facebook's earnings results, which were released after the market close. While earnings beat expectations, Facebook said it expected revenue growth to slow and reported disappointing global daily active user numbers. Facebook shares promptly fell 20%, which has dragged down the NASDAQ (-1%) and the S&P500 (-0.2%) overnight.

Facebook represents close to 2% of the market cap of the S&P500 while the FAANG group of stocks – a market favourite – collectively account for around 12%; there will be plenty of focus on Amazon's earnings report later this morning. Despite the massive fall in Facebook shares, the DJIA was up 0.6% on the day and most sectors of the S&P500 were also higher. European equities also moved

higher, led by the German DAX (1.8%).

While there was finally some positive news on trade from the Trump-Juncker agreement, Qualcomm announced it had abandoned its planned merger with semiconductor maker NXP after not receiving regulatory approval from China. Only last month, media had reported that China's Ministry of Commerce had given approval for the merger, but the subsequent escalation in trade relations between the two countries has clearly led to a change in heart. So while EU-US trade relations are now on a stronger footing, the stand-off with China continues.

Currencies remain range-bound. The USD is stronger over the past 24 hours, reversing the decline from the previous day. US economic data was mixed, with the monthly trade balance and (volatile) headline durable goods orders weaker than expected, but capital goods orders and shipments stronger. The Atlanta Fed GDPNow estimate for (quarterly annualized) Q2 growth was subsequently revised down to 3.8% from 4.5%. Q2 US GDP is released tonight.

The EUR is weaker after ECB President Draghi confirmed the ECB would keep rates on hold "through the summer of 2019". There had been some confusion around this phrase after it was translated slightly differently into several other languages after the last ECB Statement. But Draghi confirmed the English text was the official text, squashing an earlier Reuters story that suggested the wording was vague enough to allow for a hike as early as the July 2019 meeting. The EUR subsequently fell from around 1.1720 to 1.1650, reversing the earlier gains made after the Trump-Juncker agreement. Draghi noted the agreement was "a good sign" but said it was "too early to assess" what the macroeconomic implications were.

The NZD has fallen over the past 24 hours, in sympathy with the move in the EUR and fall in the CNY. The NZD fell from a high of 0.6851 early yesterday afternoon, which was towards the upper end of the trading range over the past month, to 0.6785 now. If the EU-US agreement emboldens Trump to maintain pressure on China, which in turn keeps the CNY under pressure, this will likely continue to weigh on the NZD and AUD.

Finally, in bond markets, the 10 year US Treasury yield is unchanged on the day, just below 3%. The 10 year JGB yield remains close to 0.1% as speculation of potential BoJ policy changes continues to grow ahead of the monetary policy meeting next week. Overnight, Reuters reported that the BoJ might keep its yield target for the 10 year JGB of 0% but signal more flexibility for market rates to deviate around this level (to date, the BoJ has

intervened when the 10 year JGB has traded above 0.1%). NZ swap rates were marginally higher yesterday.

nick.smyth@bnz.co.nz

Coming Up

| | Period | Cons. | Prev. | NZT |
|-------------------------------------------|--------|-------|-------|-------|
| NZ ANZ Consumer Confidence Index | Jul | | 120 | 10:00 |
| JN Tokyo CPI Ex-Fresh Food, Energy (y/y%) | Jul | 0.4 | 0.4 | 11:30 |
| GE Retail Sales YoY | Jun | 1.7 | -1.6 | 08/04 |
| US GDP Annualized QoQ | 2Q A | 4.2 | 2 | 00:30 |
| US U. of Mich. Sentiment | Jul F | 97.1 | 97.1 | 02:00 |

Source: Bloomberg, BNZ.

| Foreign Exchange | | | | | | Equities | | | | Commodities** | | | | |
|---------------------------------|--------|-------------|--------|--------|-----------------------|----------|---------------------|---------------------|--------|----------------|---------|---------------------------|--------|------|
| Indicative overnight ranges (*) | | | | | Other FX | | Major Indices | | | | Price | | | |
| | Last | % Day | Low | High | | Last | % Day | | | | Last | Net Day | | |
| NZD | 0.6786 | -0.7 | 0.6784 | 0.6842 | CHF | 0.9947 | +0.3 | S&P 500 | 2,840 | -0.2 | 14.6 | Oil (Brent) | 74.51 | +0.8 |
| AUD | 0.7377 | -1.0 | 0.7374 | 0.7446 | SEK | 8.814 | +0.6 | Dow | 25,566 | +0.6 | 17.8 | Oil (WTI) | 69.60 | +0.4 |
| EUR | 1.1643 | -0.7 | 1.1640 | 1.1743 | NOK | 8.190 | +0.7 | Nasdaq | 7,854 | -1.0 | 22.3 | Gold | 1232.0 | -0.7 |
| GBP | 1.3109 | -0.6 | 1.3106 | 1.3212 | HKD | 7.848 | +0.0 | Stoxx 50 | 3,509 | +1.2 | 0.5 | HRC steel | 887.0 | -0.4 |
| JPY | 111.24 | +0.2 | 110.59 | 111.25 | CNY | 6.793 | +0.3 | FTSE | 7,663 | +0.1 | 2.8 | CRB | 195.0 | +0.2 |
| CAD | 1.3069 | +0.2 | | | SGD | 1.364 | +0.4 | DAX | 12,809 | +1.8 | 4.1 | Wheat Chic. | 556.5 | -1.2 |
| NZD/AUD | 0.9199 | +0.3 | | | IDR | 14,463 | -0.1 | CAC 40 | 5,481 | -0.0 | 5.6 | Sugar | 11.03 | -1.3 |
| NZD/EUR | 0.5828 | +0.0 | | | THB | 33.39 | +0.6 | Nikkei | 22,587 | -0.1 | 12.5 | Cotton | 88.23 | +0.2 |
| NZD/GBP | 0.5177 | -0.1 | | | KRW | 1,120 | -0.6 | Shanghai | 2,882 | -0.7 | -11.3 | Coffee | 109.6 | -1.4 |
| NZD/JPY | 75.49 | -0.5 | | | TWD | 30.56 | -0.2 | ASX 200 | 6,244 | -0.1 | 7.9 | WM powder | 2975.0 | +0.8 |
| NZD/CAD | 0.8869 | -0.6 | | | PHP | 53.40 | +0.2 | NZX 50 | 8,932 | -0.0 | 15.8 | Australian Futures | | |
| NZ TWI | 73.27 | -0.3 | | | | | | | | | | 3 year bond | 97.895 | 0.04 |
| | | | | | | | | | | | | 10 year bond | 97.33 | 0.05 |
| 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 | 2.34 | 2.87 | 3.02 | USD | 2.97 | -0.00 | NZGB 6 05/15/21 | 1.91 | -0.00 | 1 year | 2.01 | 0.00 | |
| AUD | 1.50 | 1.97 | 2.07 | 2.86 | AUD | 2.68 | 0.01 | NZGB 5 1/2 04/15/23 | 2.14 | 0.00 | 2 year | 2.14 | 0.00 | |
| NZD | 1.75 | 1.91 | 2.14 | 3.05 | NZD | 2.62 | 0.00 | NZGB 2 3/4 04/15/25 | 2.45 | 0.00 | 5 year | 2.56 | 0.00 | |
| EUR | 0.00 | 0.06 | -0.15 | 0.91 | GER | 0.40 | 0.01 | NZGB 4 1/2 04/15/27 | 2.62 | 0.00 | 7 year | 2.80 | 0.01 | |
| GBP | 0.50 | 0.79 | 1.10 | 1.53 | GBP | 1.28 | 0.00 | NZGB 3 04/20/29 | 2.77 | -0.01 | 10 year | 3.06 | 0.01 | |
| JPY | -0.07 | -0.04 | 0.05 | 0.31 | JPY | 0.09 | 0.02 | NZGB 3 1/2 04/14/33 | 2.94 | -0.01 | 15 year | 3.32 | 0.01 | |
| CAD | 1.50 | 1.17 | 2.38 | 2.67 | CAD | 2.28 | -0.01 | NZGB 2 3/4 04/15/37 | 3.08 | -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 06:51

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.