

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.

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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

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