

27 June 2018



Events Round-Up

US: Conf. Board cons. confid., Jun: 126.4 vs. 128.0 exp.

Good Morning

US equities are modestly higher after yesterday's chunky sell-off, led by the energy sector on higher oil prices. Against a backdrop of a broadly stronger USD, the NZD has underperformed, while rates markets have barely moved.

Equity markets are on a better footing after a bad start to the week on a day with limited newsflow. Trade war headlines are still in focus but the market isn't in a mood to keep on pricing in bad news at this stage. Trump railed against Harley Davidson's plans to move production overseas in response to the EU's retaliatory tariffs, falsely claiming that the company was using the tariffs as an excuse. Trump clearly isn't afraid to shoot down an iconic US manufacturer to deflect attention from his policies. He also tweeted that a study of tariffs on cars from the EU was finishing, suggesting that a decision on fresh auto tariffs might be forthcoming soon.

Canada is said to prepare steel quotas and tariffs on imports as the US steel tariffs open the door to a potential flood of cheap imports. This illustrates how easily a US-centred trade policy can have global ramifications and develop into a more generalised global trade war. The Fed's Bostic and Kaplan have both given speeches this morning. Bostic says that the Fed's job is a lot harder amid trade uncertainty and that disruption from the trade war is going to be "painful". Kaplan seemed on board with fighting against the threat of China but not fighting battles with five allies at the same time.

On a slightly better tone, Trump said he favours using a committee that scrutinises foreign acquisitions of US companies to limit Chinese investments in sensitive American technologies. This would be a more understandable course of action than the nuclear option of simply imposing unilateral measures directed against China.

Oil prices are higher (WTI +3½%, Brent +2%), as the US pushes allies to end imports of all crude from Iran by November. This could amount to a potential loss of 1.5 million barrels a day of supply hitting the market just ahead of the US winter, raising fears of a tighter oil market ahead.

In the FX market, higher oil prices seem to have offered some support to CAD and AUD, which have seen only modest losses against a backdrop of a stronger USD. AUD is down 0.3% to just below 0.74. The NZD has underperformed, and is down 0.7% to 0.6850, the middle of the 0.68-0.69 key support zone. The NZD weakened a touch yesterday morning after publication of the RBNZ's annual statement of intent. Buried on page 17 was a flippant comment that the NZD "remains at an elevated level". This is, of course, complete nonsense, with NZ's real exchange rate in line with its average of the past 15 years and below its average of the past 5 years but old habits seem hard to break. The RBNZ has a habit of speaking out of tune about the NZD. Governor Orr rightly omitted any focus on the NZD in the last MPS but somehow this comment slipped through the cracks.

We can't be sure that that comment was the cause of further modest downward pressure on the NZD in overnight trading but it can't have helped. Global agricultural commodity prices have been slammed recently, even by more than industrials. While NZ isn't exposed to the likes of weak soybeans, corn and wheat, it can impact the currency by association, even if more relevant NZ commodity prices are relatively better.

The NZD is weaker on all the crosses, although falls have been modest. The second worst performing major was GBP, down 0.4% to 1.3225. Incoming BoE member member Haskel proved to be on the dovish side of the ledger in his testimony to Parliament. While he agreed with the BoE's broad direction on interest rates, he spoke about the risks of raising interest rates too fast. He replaces the more hawkish McCafferty in September.

Once again, there is little to say about the rates market, with the US 10-year rate in a tight range and steady at 2.88%. US consumer confidence data were a little softer, but coming off a very high base. Yesterday, NZ rates were down slightly, a reflection of global forces over the prior session.

In the day ahead, the ANZ survey will be watched, with increasing focus on the "winter of discontent" amongst businesses as they remain grumpy with the direction of government policy. The global economic calendar remains light, with US durable goods orders and the advanced goods trade balance of some mild interest.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ Trade balance (\$m)	May	100	263	10:45
NZ ANZ Activity Outlook	Jun		13.6	13:00
US Durable goods orders (m/m%)	May	-1.0	-1.6	00:30
US Durables ex transportation	May	0.5	0.9	00:30
US Advance goods trade bal. (\$b)	May	-69.0	-68.2	00:30
US Pending home sales (m/m%)	May	0.5	-1.3	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	0.6856	-0.7	0.6847	0.6900	CHF	0.9913	+0.4	S&P 500	2,729	+0.5	11.9	Oil (Brent)	76.03	+2.2
AUD	0.7395	-0.3	0.7380	0.7420	SEK	8.880	+0.4	Dow	24,352	+0.4	13.7	Oil (WTI)	70.20	+3.4
EUR	1.1648	-0.5	1.1635	1.1719	NOK	8.128	+0.3	Nasdaq	7,576	+0.6	21.3	Gold	1256.6	-0.7
GBP	1.3229	-0.4	1.3193	1.3290	HKD	7.849	+0.0	Stoxx 50	3,369	-0.0	-5.4	HRC steel	900.0	-0.2
JPY	110.13	+0.3	109.46	110.22	CNY	6.579	+0.6	FTSE	7,538	+0.4	1.2	CRB	196.9	+1.0
CAD	1.3296	-0.0			SGD	1.363	+0.1	DAX	12,234	-0.3	-4.2	Wheat Chic.	484.0	-1.5
NZD/AUD	0.9271	-0.3			IDR	14,179	+0.1	CAC 40	5,281	-0.5	-0.3	Sugar	12.12	+1.0
NZD/EUR	0.5886	-0.1			THB	33.03	+0.3	Nikkei	22,342	+0.0	10.5	Cotton	84.25	-2.0
NZD/GBP	0.5183	-0.2			KRW	1,115	-0.2	Shanghai	2,845	-0.5	-10.9	Coffee	117.7	+0.4
NZD/JPY	75.51	-0.3			TWD	30.40	+0.0	ASX 200	6,198	-0.2	8.5	WM powder	3160.0	+0.0
NZD/CAD	0.9116	-0.7			PHP	53.61	+0.3	NZX 50	8,990	-0.1	17.9	Australian Futures		
NZ TWI	73.32	-0.4										3 year bond	97.885	-0.01
												10 year bond	97.34	-0.02
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last				Last			
USD	2.00	2.34	2.79	2.95	USD	2.88	0.00	NZGB 6 05/15/21	2.01	-0.02		1 year	2.12	-0.01
AUD	1.50	2.12	2.10	2.84	AUD	2.64	0.01	NZGB 5 1/2 04/15/23	2.24	-0.02		2 year	2.24	-0.00
NZD	1.75	2.03	2.24	3.09	NZD	2.70	-0.02	NZGB 2 3/4 04/15/25	2.52	-0.02		5 year	2.63	-0.01
EUR	0.00	0.06	-0.17	0.91	GER	0.34	0.01	NZGB 4 1/2 04/15/27	2.70	-0.02		7 year	2.86	-0.02
GBP	0.50	0.66	1.05	1.55	GBP	1.30	0.01	NZGB 3 04/20/29	2.89	-0.02		10 year	3.09	-0.02
JPY	-0.07	-0.04	0.04	0.26	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.07	-0.03		15 year	3.35	-0.01
CAD	1.25	1.17	2.17	2.50	CAD	2.10	0.01	NZGB 2 3/4 04/15/37	3.22	-0.02				

* 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 06:58

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.