

28 August 2018



Events Round-Up

GE: IFO business climate, Aug: 103.8 vs. 101.9 exp.

Good Morning

The S&P500 and NASDAQ set new highs overnight after the US and Mexico said they had reached a trade understanding for a deal to replace NAFTA. The US dollar continued where it left off on Friday, weakening across the board overnight, while US Treasury yields were modestly higher. The NZD is up only slightly from Friday's close.

The big news overnight is that the US and Mexico have reached an understanding on trade, setting the stage for a new free-trade agreement to replace NAFTA. The deal agreed by the US and Mexico would last 16 years and be reviewed every 6 years. Canada, the other participant in NAFTA, has been side-lined through the US-Mexican trade talks and will now re-join the negotiations in the hope of finalising a deal between the three countries. While Mexican president Enrique Pena Nieto said he was "*quite hopeful*" that Canada would join the agreement and that negotiations could be concluded this week, Trump said "*we'll see*" in reference to Canada joining the deal. If a deal cannot be negotiated between the three sides, Trump didn't rule out a separate, bilateral deal with Canada. There are reportedly still a number of sticking points between the Canada and the US that would need to be overcome for a deal on a revised NAFTA to be reached.

The US-Mexico trade understanding and Trump's recent announcement that he would hold off on tariffs on the EU while the two sides pursued a trade agreement represent some good news on the trade front. They also demonstrate that the President can backtrack on previously hostile rhetoric. It looks, however, like Trump is focusing his attentions on China, with the public consultation on his proposed \$200b of tariffs on Chinese imports set to end on September 5th, and no signs of a breakthrough there.

Nonetheless, the US-Mexico announcement set the scene

for a further increase in US equities, with the S&P500 following on from its record high on Friday with a 0.8% increase. The NASDAQ was up 1% as it broke the 8,000 barrier, on its way to a new record high. The risk-on tone also helped US Treasury yields rise, with the 10 year yield up 4bps to 2.85%, reversing the move after Fed Chair Powell's speech on Friday. There was no major economic data released overnight

The Canadian dollar and Mexican peso strengthened after headlines emerged that the US and Mexico had come to a trade agreement. The peso is around 1% higher while the CAD is 0.5% stronger on the day, despite uncertainty over whether Canada and the US will be able to resolve their differences on trade.

The USD is weaker across the board again, with the DXY and BBDXY around 0.4% lower on the day. The USD indices hit a one-year high just a fortnight ago, but the recent reversal has seen both the DXY and BBDXY track back into the ranges that were established between May and August. CFTC data over the weekend highlighted that speculative investors were holding 'long' positions in the USD in aggregate, and the combination of a US-Mexico trade truce, China taking more active steps to stabilize the CNY, and what was seen as a dovish speech by Fed Chair Powell have probably conspired to drive some unwinding of those positions.

FX market activity was fairly light given the UK Bank Holiday, but the NZD has moved modestly higher as it flirts with 0.67. The focus for the local market this week is the ANZ business survey which is released on Thursday. NZ swap rates moved up by around 1bp yesterday as the market continues to consolidate after the RBNZ MPS, and rates should extend those gains somewhat today in light of the overnight moves.

nick.smyth@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT	
EC	ECB Board Member Peter Praet Speaks in Germany			23:00	
US	Advance Goods Trade Balance	Jul	-69	-68.3	00:30
US	Conf. Board Consumer Confide	Aug	126.6	127.4	02:00

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	0.6695	+0.4	0.6670	0.6702	CHF	0.9797	-0.4		S&P 500	2,897	+0.8	18.6	Oil (Brent)	76.19	+0.5
AUD	0.7345	+0.2	0.7307	0.7357	SEK	9.104	-0.3		Dow	26,053	+1.0	19.4	Oil (WTI)	68.84	+0.2
EUR	1.1677	+0.5	1.1595	1.1694	NOK	8.329	+0.0		Nasdaq	8,016	+0.9	27.9	Gold	1210.9	+0.2
GBP	1.2892	+0.4	1.2829	1.2901	HKD	7.850	+0.0		Stoxx 50	3,456	+0.8	0.5	HRC steel	866.0	-0.6
JPY	111.10	-0.1	110.95	111.19	CNY	6.816	+0.1		FTSE	7,577	+0.2	2.4	CRB	192.9	+0.4
CAD	1.2969	-0.4			SGD	1.363	-0.2		DAX	12,538	+1.2	3.0	Wheat Chic.	522.5	-2.3
NZD/AUD	0.9115	-0.2			IDR	14,620	-0.2		CAC 40	5,479	+0.7	7.3	Sugar	10.51	+2.9
NZD/EUR	0.5733	-0.4			THB	32.53	-0.4		Nikkei	22,800	+0.9	17.2	Cotton	83.52	+1.4
NZD/GBP	0.5193	-0.2			KRW	1,114	-0.4		Shanghai	2,781	+1.9	-17.3	Coffee	105.8	+0.9
NZD/JPY	74.38	+0.2			TWD	30.75	-0.1		ASX 200	6,269	+0.3	9.8	WMI powder	2860.0	+0.5
NZD/CAD	0.8683	-0.2			PHP	53.39	-0.1		NZX 50	9,206	+0.5	17.6	Australian Futures		
NZ TWI	72.38	+0.2											3 year bond	97.945	-0.01
													10 year bond	97.43	-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				
USD	2.00	2.32	2.83	2.93	USD	2.85	0.04	NZGB 6 05/15/21	1.74	0.01	1 year	1.96	0.01
AUD	1.50	1.95	2.04	2.77	AUD	2.54	0.00	NZGB 5 1/2 04/15/23	1.97	0.01	2 year	2.04	0.01
NZD	1.75	1.93	2.04	2.87	NZD	2.42	0.01	NZGB 2 3/4 04/15/25	2.24	0.01	5 year	2.37	0.01
EUR	0.00	0.06	-0.15	0.90	GER	0.38	0.03	NZGB 4 1/2 04/15/27	2.42	0.01	7 year	2.61	0.01
GBP	0.75	0.81	1.09	1.53	GBP	1.28	0.00	NZGB 3 04/20/29	2.58	0.01	10 year	2.87	0.01
JPY	-0.05	-0.03	0.05	0.31	JPY	0.10	-0.00	NZGB 3 1/2 04/14/33	2.75	0.01	15 year	3.12	0.01
CAD	1.50	1.17	2.46	2.68	CAD	2.30	0.04	NZGB 2 3/4 04/15/37	2.90	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 06:53

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

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