

28 June 2018



Events Round-Up

NZ: Trade balance (\$m), May: 294 vs. 100 exp.

NZ: ANZ Activity Outlook, Jun: 9.4 vs. 13.6 prev.

US: Durable goods orders (m/m%), May: -0.6 vs. -1.0 exp.

US: Durables ex transportation, May: -0.3 vs. 0.5 exp.

US: Advance trade bal. (\$b), May: -64.8 vs. -69.0 exp.

US: Pending home sales (m/m%), May: -0.5 vs. 0.5 exp.

Good Morning

The NZD has been one of the worst performers over the past 24 hours, although much of the damage was done during local trading hours, with only a small further fall overnight to just below 0.68. Risk appetite is weaker, with US equities slightly lower and UST10s down 5bps.

The NZD has been hit with a triple-whammy, with a weak business survey, further signs of China managing its currency lower and softer risk appetite. This combo saw the bottom of the 0.68-0.69 range broken this morning with a low of 0.6793. A possible breach of the November 2017 low of 0.6781 is now firmly on the radar, which would excite the chartists and possibly open up further downside potential.

The NZD was already on a downward trend over the past couple of weeks and the release of a weak ANZ business outlook survey added to its demise. Confidence and activity indicators in the survey slipped further into "weak" territory, not helped by the widespread grumpiness of the direction of government policy amongst other factors. We still think that the indicators in the survey overstate economic weakness, with growth ahead likely to be boosted by the easing in fiscal policy, but we still need to respect the message of the survey.

Soon after the release of the survey, the PBoC published a weak reference rate for CNY which added to downward pressure to the NZD. Over the past six trading days the PBoC has "devalued" the yuan (CNY reference rate) by just over 2%, the largest six-day movement since the August 2015 devaluation. Recall that 2015 episode caused all sorts of market volatility (including an 8% flash crash in the NZD on 24 August 2015). Recent CNY fixes lend weight to the view that the PBoC is actively trying to manage the CNY weaker against a backdrop of softer China activity data and the risk from the escalating trade war. As we mentioned earlier this week, the PBoC needs

to be careful that it doesn't spook the market and trigger resurgent capital outflows. We see this as the most threatening source of risk to a weaker NZD. Sentiment for EM and commodity currencies would likely sour further if the PBoC continues down this path.

In overnight news, Trump confirmed yesterday's news reports that he would use the existing committee that scrutinises foreign acquisitions of US companies to limit Chinese investments in sensitive American technologies rather than use a more confrontational approach of executive orders. This set a positive tone to the open for US equities but reversed course after Trump's economic advisor Kudlow said that China's reply to US trade demands has so far not been satisfactory and that Trump was not retreating on China. After being up as much as 0.8%, the S&P500 is currently down 0.3%. US durables goods orders data were softer than expected in May, but upward revisions for April suggested that the trend in business investment remained firm. The trade deficit for May shrunk to a 9-month low and was smaller than expected, adding to the case for a bounce-back in net exports in Q2 GDP. The latest Atlanta GDPnow indicator suggests an annualised increase of 4½% for Q2 GDP

WTI oil prices rose over 3% to as much as \$73 per barrel – a 3-year high – supported by a sharp fall in weekly US crude oil inventories data reported by the EIA. Brent crude was up 2% and reached \$78 per barrel. This data followed concerns yesterday about diminishing supply from Iran as the US takes a hard line on sanctions.

The NZD is down on all the crosses, largely reflecting the move during local trading hours and in overnight trading the worst performing currencies have been the European ones. The USD has been stronger across the board, with the various dollar indices up in the order of 0.5-0.6% for the day. The BoE's six-monthly Financial Stability Report was a sobering read, with the Bank concerned about the trillions of pounds of derivative contracts at risk under Brexit with ongoing legal concerns about "contract continuity" after Britain leaves the EU. Irish PM Varadkar said in Parliament that there had been no substantial progress on Irish issues since March.

US Treasury rates have pushed lower, in line with the weaker trend in US equities, with the 10-year rate currently down 5bps to 2.82%. A modestly lower break-even inflation rate over the past couple of weeks has gone against the trend of higher oil prices. This suggests the market is less concerned about the inflationary impact of oil and perhaps more worried about the impact on growth

of the escalating trade war and how that might feed into Fed policy.

The local rates curve saw a slight steepening bias, with short rates nudging lower after the market digested the ANZ business outlook survey. The 2-year swap rate fell by 3bps to 2.21% while the 10-year rate was down by only 1bp on the day.

This morning we'll be focused on the RBNZ OCR review but it should pass with little market reaction, with the Bank decisively on hold and unlikely to budge from that view for some time. The OIS market shows a very flat curve and the first rate hike not fully priced until November 2019. It's a reminder that the differential of NZ-US interest rates will continue to fall against a backdrop of a higher Fed Funds rate, and this feature will remain an ongoing headwind for the NZD for some time to come.

Elsewhere, euro-area CPI data and a speech by the BoE's

Haldane are on our watchlist. Last week, Haldane went against the consensus and voted for a rate hike so his reasoning will be an interesting read.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ RBNZ official cash rate (%)	Jun	1.75	1.75	09:00
GE GfK consumer confidence	Jul	10.6	10.7	18:00
EC Economic confidence	Jun	112	112.5	21:00
GE CPI EU harmonised (m/m%)	Jun	0.2	0.6	00:00
GE CPI EU harmonised (y/y%)	Jun	2.1	2.2	00:00
US GDP (third est. annlsd %)	Q1	2.2	2.2	00:30
UK BOE Chief Economist Haldane speaks in London				01:30
US Fed's Bullard speaks on US economy and mon. pol.				02:45

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	0.6797	-0.9	0.6793	0.6833	CHF	0.9969	+0.6	S&P 500	2,716	-0.3	12.3	Oil (Brent)	77.42	+1.5
AUD	0.7352	-0.6	0.7352	0.7407	SEK	8.965	+0.9	Dow	24,173	-0.4	13.4	Oil (WTI)	72.51	+2.8
EUR	1.1556	-0.8	1.1553	1.1672	NOK	8.186	+0.7	Nasdaq	7,480	-1.1	21.7	Gold	1252.8	-0.3
GBP	1.3127	-0.7	1.3125	1.3234	HKD	7.848	-0.0	Stoxx 50	3,397	+0.8	-4.0	HRC steel	907.0	+0.1
JPY	110.20	+0.1	109.69	110.49	CNY	6.608	+0.4	FTSE	7,622	+1.1	2.5	CRB	198.9	+0.9
CAD	1.3314	+0.0			SGD	1.367	+0.3	DAX	12,349	+0.9	-2.5	Wheat Chic.	488.5	+1.1
NZD/AUD	0.9245	-0.3			IDR	14,179	+0.1	CAC 40	5,327	-0.2	1.3	Sugar	11.72	-3.3
NZD/EUR	0.5882	-0.1			THB	33.06	+0.1	Nikkei	22,272	-0.3	10.6	Cotton	85.75	+1.2
NZD/GBP	0.5178	-0.1			KRW	1,118	+0.3	Shanghai	2,813	-1.1	-11.3	Coffee	117.5	-0.2
NZD/JPY	74.90	-0.8			TWD	30.47	+0.3	ASX 200	6,196	-0.0	7.6	WM powder	3155.0	-0.2
NZD/CAD	0.9050	-1.0			PHP	53.54	-0.1	NZX 50	8,997	+0.1	18.0	Australian Futures		
NZ TWI	73.00	-0.6										3 year bond	97.92	0.03
												10 year bond	97.39	0.05
Interest Rates														
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day		Last		Last			
USD	2.00	2.34	2.76	2.90	USD	2.83	-0.05	NZGB 6 05/15/21	1.97	-0.03	1 year	2.09	-0.03	
AUD	1.50	2.11	2.10	2.81	AUD	2.63	-0.02	NZGB 5 1/2 04/15/23	2.21	-0.04	2 year	2.21	-0.03	
NZD	1.75	2.03	2.20	3.08	NZD	2.69	-0.02	NZGB 2 3/4 04/15/25	2.50	-0.02	5 year	2.61	-0.02	
EUR	0.00	0.06	-0.17	0.89	GER	0.32	-0.02	NZGB 4 1/2 04/15/27	2.69	-0.02	7 year	2.85	-0.01	
GBP	0.50	0.66	1.02	1.51	GBP	1.25	-0.06	NZGB 3 04/20/29	2.89	-0.00	10 year	3.08	-0.01	
JPY	-0.07	-0.04	0.04	0.25	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.07	-0.00	15 year	3.34	-0.01	
CAD	1.25	1.17	2.14	2.47	CAD	2.07	-0.03	NZGB 2 3/4 04/15/37	3.22	-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 07:00

Source: Bloomberg

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