

29 August 2018



Events Round-Up

US: Trade balance (\$b), Jul: -72.2 vs. -69 exp.

US: Conference Board consumer confidence, Aug:133.4 vs. 126.6 exp.

Good Morning

Market moves were reasonably modest overnight, although there is a lingering risk-on tone from yesterday's tentative trade agreement between the US and Mexico. The USD was mixed, but the NZD has moved up towards resistance around 0.6725.

There hasn't been too much news-flow to move markets over the past 24 hours but the US-Mexico trade agreement announced yesterday has kept risk appetite well supported. The S&P500 and NASDAQ have moved slightly higher to new record highs while the VIX index of volatility hovers at low levels, around 12.

After the US-Mexico agreement, Canada's foreign minister, Chrystia Freeland, flew to Washington to join talks in the hopes of agreeing a revised three-way NAFTA deal. While there remain a number of sticking points between Canada and the US, including the protections afforded to the Canadian dairy sector, the market seems to be viewing recent developments positively for now; the CAD is the second best performing G10 currency on the day and is at its strongest level since June (although the Mexican peso, in contrast, has fully reversed its post-agreement gains).

Focus will undoubtedly shift onto the trade stand-off with China now. Overnight President Trump said "*it's just not the right time to talk [to China] right now*" while Commerce Secretary Wilbur Ross said the US was focused on sorting out trade agreements in "*our own neighborhood*" before moving onto China. The public consultation on Trump's proposed \$200b of tariffs on Chinese imports ends on 5th September, and there doesn't appear any sign from the US administration that it is backing away from the threat. This will prove a bigger test to the resiliency of risk assets if the tariffs go through.

In the bond market, US Treasury yields moved higher, helped in part by a stronger than expected US consumer confidence release. The Conference Board's headline confidence number reached its highest levels since 2000 while the 'jobs differential' (the difference between 'jobs

plentiful' and 'jobs hard to get') also reached its best levels since 2000, indicative of continued strength in the labour market. The 10 year Treasury yield moved up 3bps to 2.88%, but it remains well contained within its recent 2.80% - 3% trading range. The 2s10s yield curve steepened 1bp to 21bps. The yield curve has become a prominent topic of conversation in the market recently given an 'inversion' (i.e. 2 year yields above 10 year yields) has been a historically reliable lead indicator of US recession (with a lead time of one to two years).

The USD initially extended its losses from yesterday, reaching a one-month low, but the stronger than expected consumer confidence data and bounce in US rates has helped it recover. The declines in the DXY and Bloomberg DXY indices over the past two weeks have pushed the USD firmly back into the range that had been established between June and July.

The EUR initially moved up towards resistance near 1.1750, but it has since retraced back towards 1.17 (+0.2% on the day). Meanwhile, the GBP weakened 0.2% against the USD with the lingering risk of a 'no-deal brexit' continuing to hang over the market. Overnight, Theresa May quoted the head of the WTO in saying "*he said about a no-deal situation that it would not be a walk in the park, but it wouldn't be the end of the world*", and she added "*I've said right from the beginning that no deal is better than a bad deal*." The market's concern is that a no-deal brexit is being gradually destigmatized and can no longer be ruled out.

The NZD is one of the better performing currencies on the day, and is up 0.3% from last night's local close to 0.6710. The NZD ran into resistance around 0.6725, and has since eased back slightly, in sympathy with the USD reversal. NZ rates moved slightly higher and steeper yesterday, with the 10 year swap rate up 2bps to 2.89%. We'd expect a similar move today based on the overnight move in US Treasuries.

The second release of Q2 US GDP tonight is the highlight.

nick.smyth@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
US GDP Annualized QoQ	2Q S	4	4.1	00:30
US Core PCE QoQ	2Q S	2	2	00:30
US Pending Home Sales MoM	Jul	0.25	0.9	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	0.6711	+0.2	0.6677	0.6727	CHF	0.9768	-0.3		S&P 500	2,899	+0.1	18.6	Oil (Brent)	75.95	-0.3
AUD	0.7335	-0.2	0.7321	0.7362	SEK	9.133	+0.4		Dow	26,094	+0.2	19.7	Oil (WTI)	68.59	-0.4
EUR	1.1696	+0.2	1.1663	1.1733	NOK	8.342	+0.2		Nasdaq	8,035	+0.2	27.9	Gold	1202.6	-0.7
GBP	1.2870	-0.2	1.2862	1.2932	HKD	7.850	-0.0		Stoxx 50	3,448	-0.2	0.8	HRC steel	859.0	-0.5
JPY	111.20	+0.1	110.96	111.26	CNY	6.803	-0.2		FTSE	7,617	+0.5	2.9	CRB	191.7	-0.6
CAD	1.2931	-0.3			SGD	1.364	+0.1		DAX	12,527	-0.1	3.3	Wheat Chic.	523.3	+0.1
NZD/AUD	0.9149	+0.4			IDR	14,626	+0.0		CAC 40	5,485	+0.2	8.0	Sugar	10.31	-1.9
NZD/EUR	0.5738	+0.1			THB	32.57	+0.1		Nikkei	22,813	+0.1	17.8	Cotton	83.81	+0.5
NZD/GBP	0.5214	+0.4			KRW	1,110	-0.4		Shanghai	2,778	-0.1	-17.5	Coffee	103.1	-2.5
NZD/JPY	74.63	+0.4			TWD	30.72	-0.1		ASX 200	6,305	+0.6	11.2	WMI powder	2840.0	-0.7
NZD/CAD	0.8678	-0.1			PHP	53.29	-0.2		NZX 50	9,214	+0.1	19.1	Australian Futures		
NZ TWI	72.55	+0.2											3 year bond	97.93	-0.01
													10 year bond	97.41	-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	2.84	2.95	USD	2.88	0.03	NZGB 6 05/15/21	1.75	0.01	1 year	1.96	-0.00		
AUD	1.50	1.96	2.05	2.79	AUD	2.56	0.02	NZGB 5 1/2 04/15/23	1.98	0.01	2 year	2.04	0.00		
NZD	1.75	1.92	2.04	2.89	NZD	2.44	0.02	NZGB 2 3/4 04/15/25	2.25	0.02	5 year	2.38	0.01		
EUR	0.00	0.06	-0.15	0.90	GER	0.38	0.00	NZGB 4 1/2 04/15/27	2.44	0.02	7 year	2.62	0.02		
GBP	0.75	0.81	1.10	1.55	GBP	1.45	0.17	NZGB 3 04/20/29	2.60	0.02	10 year	2.89	0.02		
JPY	-0.05	-0.03	0.05	0.32	JPY	0.10	0.00	NZGB 3 1/2 04/14/33	2.78	0.02	15 year	3.14	0.02		
CAD	1.50	1.17	2.46	2.69	CAD	2.31	0.02	NZGB 2 3/4 04/15/37	2.93	0.03					

* 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 06:48

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 Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: 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. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. 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. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: 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.