

30 July 2018



Events Round-Up

NZ: ANZ consumer confidence, Jul: 118.4 vs 120 prev.

JN: Tokyo CPI ex-fresh food and energy (y/y%), Jul: 0.5% vs 0.4% exp.

US: GDP (q/q% annualized), Q2: 4.1% vs 4.2% exp.

US: Core PCE deflator (q/q% annualized), Q2: 2% vs 2.2% exp.

Good Morning

It was a reasonably quiet end to the week on Friday, with the exception of a sharp decline in US tech stocks. US Q2 GDP was marginally below expectations, which triggered a slight decline in Treasury yields and the US dollar. A big week awaits – the BoJ, BoE and Fed all meet, while payrolls is released on Friday. The focus locally will centre on the labour market report on Wednesday.

Tech stocks have been in focus this past week after Facebook reported disappointing active user numbers and lowered revenue growth estimates at its earnings call on Wednesday, seeing its share price slammed 20% lower. It was Twitter's turn on Friday, with its share price also falling 20% after the tech company reported a decline in monthly active users. The NASDAQ 100 closed down 1.5% on Friday, led by a 9% fall in Intel after the company announced a delay to its next-generation chips (note: Twitter isn't included in the NASDAQ). The NASDAQ is still up 12% this year, significantly outperforming the S&P500, but some recent high profile earnings disappointments in the tech sector (Facebook, Netflix) has at least partially dented the uber-bullish sentiment. There will be greater-than-usual focus on Apple's earnings results when it reports on Wednesday morning. The S&P500 was down a more moderate 0.7% on Friday.

US Q2 GDP was released on Friday amid heightened expectations, after Trump's economic advisor Larry Kudlow had said the previous day that he expected a "big" number. As it transpired, GDP was slightly lower than the market consensus (4.1% annualized in Q2 v 4.2% expected). Inventories subtracted around 1% off Q2 growth, but the quarterly figure was also flattered by a large increase in net exports which commentators attribute to foreign buyers bringing forward their purchases of US goods, including soybeans, before tariffs came into effect. The year-on-year US GDP growth rate was 2.8%, nowhere near as high as the Q2 number, but still well above the trend rate of US growth. Economists expect US GDP growth to slow in coming quarters despite

Trump's implausible claim that "these numbers are very, very sustainable". The Fed's preferred measure of inflation, the core PCE deflator, was also slightly lower than expectations (last quarter's inflation number revised down 0.1% as well).

There was a small decline in the US dollar and fall in Treasury yields in response to the GDP release, possibly because some market participants had positioned for an even higher result. The DXY index was around 0.1% lower on Friday while the 10 year US Treasury yield fell 3bps to 2.95%. There should be limited implications from the GDP data for the Federal Reserve. With inflation at the Fed's target, the unemployment rate near multi-decade lows and GDP growing above trend, the market has been gravitating towards the Fed's forecast of two additional hikes over the remainder of the year (the market prices 1.7 hikes currently). The open question is what the Fed does in 2019; whether it pauses the tightening cycle or continues hiking above 'neutral'. But we're unlikely to get any clarity on that question until later this year.

The NZD ended slightly higher on Friday amidst the modest decline in the USD, and closed the week near 0.68. The NZD has remained locked within a 0.6690 – 0.6850 range for the past month. CFTC reported that speculative investors continued to hold near record levels of net short positions in the NZD (as of last Tuesday), so there is potentially scope for a 'short squeeze' in the NZD at some point. The focus domestically this week is the labour market report, released on Wednesday, where we expect the unemployment rate to remain unchanged at 4.4%. Of possibly more interest is the wage growth data, where we're expecting a relatively large 0.7% increase in the LCI, in part due to the April 1st increase in the minimum wage.

Offshore, it's a big week ahead in terms of potentially market-moving events. The BoJ meets on Wednesday amid growing speculation around whether it might tweak its Yield Curve Control (YCC) policy. JGB yields have come under upward pressure ahead of the meeting, with the BoJ intervening for the second time in the week on Friday (and only the fifth time since YCC has been in operation) to cap yields. The Fed meeting is on Thursday morning, and although no-one expects a hike, there will be interest in how it characterizes the policy outlook. The BoE meets on Thursday night, with the market 90% priced for a hike, which would take the Bank's base rate to 0.75%. Although the market seems fairly certain, 8 out of 43 economists don't think the BoE will hike rates. It's also a busy week of data, with payrolls on Friday and the ISM surveys released. The Employment Cost Index could also

potentially be a market-mover given the market's preoccupation with US wage growth.

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Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|------------------------|--------|-------|-------|-------|
| EC | Economic Confidence | Jul | 112.1 | 112.3 | 21:00 |
| GE | CPI EU Harmonized YoY | Jul P | 2.1 | 2.1 | 00:00 |
| US | Pending Home Sales MoM | Jun | 0.35 | -0.5 | 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 | 0.6790 | +0.1 | 0.6763 | 0.6801 | CHF | 0.9945 | +0.0 | S&P 500 | 2,819 | -0.7 | 14.0 | Oil (Brent) | 74.29 | -0.3 |
| AUD | 0.7400 | +0.3 | 0.7370 | 0.4715 | SEK | 8.841 | +0.3 | Dow | 25,451 | -0.3 | 16.6 | Oil (WTI) | 68.69 | -1.3 |
| EUR | 1.1657 | +0.1 | 1.1621 | 1.1664 | NOK | 8.189 | -0.0 | Nasdaq | 7,737 | -1.5 | 21.4 | Gold | 1232.7 | -0.2 |
| GBP | 1.3105 | -0.0 | 1.3083 | 1.3131 | HKD | 7.848 | -0.0 | Stoxx 50 | 3,527 | +0.5 | 1.7 | HRC steel | 887.0 | +0.0 |
| JPY | 111.05 | -0.2 | 110.80 | 111.25 | CNY | 6.813 | +0.3 | FTSE | 7,701 | +0.5 | 4.5 | CRB | 194.2 | -0.4 |
| CAD | 1.3055 | -0.1 | | | SGD | 1.362 | -0.2 | DAX | 12,860 | +0.4 | 5.7 | Wheat Chic. | 550.0 | -1.2 |
| NZD/AUD | 0.9176 | -0.2 | | | IDR | 14,417 | -0.3 | CAC 40 | 5,512 | +0.1 | 7.4 | Sugar | 10.88 | -1.4 |
| NZD/EUR | 0.5825 | -0.0 | | | THB | 33.36 | -0.1 | Nikkei | 22,713 | +0.6 | 13.8 | Cotton | 88.34 | +0.1 |
| NZD/GBP | 0.5181 | +0.1 | | | KRW | 1,118 | -0.1 | Shanghai | 2,874 | -0.3 | -11.7 | Coffee | 110.5 | +0.8 |
| NZD/JPY | 75.40 | -0.1 | | | TWD | 30.60 | +0.1 | ASX 200 | 6,300 | +0.9 | 10.5 | WM powder | 2975.0 | +0.0 |
| NZD/CAD | 0.8864 | -0.1 | | | PHP | 53.33 | -0.1 | NZX 50 | 8,996 | +0.7 | 17.8 | Australian Futures | | |
| NZ TWI | 73.34 | +0.0 | | | | | | | | | | 3 year bond | 97.9 | 0.02 |
| | | | | | | | | | | | | 10 year bond | 97.36 | 0.04 |
| 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 | | Last | |
| USD | 2.00 | 2.34 | 2.87 | 3.01 | USD | 2.95 | -0.02 | NZGB 6 05/15/21 | 1.89 | -0.02 | 1 year | 2.00 | -0.00 | |
| AUD | 1.50 | 1.97 | 2.07 | 2.82 | AUD | 2.64 | -0.04 | NZGB 5 1/2 04/15/23 | 2.12 | -0.02 | 2 year | 2.13 | -0.00 | |
| NZD | 1.75 | 1.92 | 2.13 | 3.03 | NZD | 2.58 | -0.04 | NZGB 2 3/4 04/15/25 | 2.42 | -0.02 | 5 year | 2.54 | -0.02 | |
| EUR | 0.00 | 0.06 | -0.16 | 0.91 | GER | 0.40 | -0.00 | NZGB 4 1/2 04/15/27 | 2.58 | -0.04 | 7 year | 2.78 | -0.03 | |
| GBP | 0.50 | 0.79 | 1.09 | 1.54 | GBP | 1.28 | 0.00 | NZGB 3 04/20/29 | 2.73 | -0.04 | 10 year | 3.03 | -0.03 | |
| JPY | -0.07 | -0.03 | 0.05 | 0.32 | JPY | 0.10 | 0.01 | NZGB 3 1/2 04/14/33 | 2.90 | -0.04 | 15 year | 3.29 | -0.03 | |
| CAD | 1.50 | 1.17 | 2.39 | 2.70 | CAD | 2.30 | 0.00 | NZGB 2 3/4 04/15/37 | 3.04 | -0.04 | | | | |

* 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 New York Close

Source: Bloomberg

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