

31 July 2018



Events Round-Up

EC: Economic Confidence, Jul: 112.0 vs. 112.1

GE: CPI EU harmonised (y/y%), Jul: 2.1 vs. 2.1 exp.

US: Pending home sales (m/m%), Jun: 0.1 vs. 0.9

Good Morning

The USD is weaker across the board as the new week begins, supporting a lift in the NZD towards the top of its recent range. Global rates are higher, with some nervousness ahead of today's widely anticipated BoJ meeting.

It has been a quiet start to an action-packed week. Newsflow has been limited, but the flow of data and announcements will pick up from today. US equities are weaker, led by further declines in the tech sector, as investors rotate out of this sector following some high-profile earnings misses. The NYSE FANG index is now down over 9% through the past three trading sessions. The S&P500 is currently down 0.5% and on track for a third consecutive daily fall.

US Commerce Secretary Ross indicated that trade negotiations with Mexico under its new President were proceeding rapidly and were close to completion. This follows US Trade Rep Lighthizer's comments last week indicating some hope that NAFTA talks are in the "finishing stages". It remains to be seen whether a bilateral deal with Mexico will be agreed before negotiating separately with Canada.

In economic data overnight, the early Germany CPI estimate was in line with expectations, while Sweden's Q2 GDP of 1.0% q/q smashed expectations of a 0.5% increase. This sees SEK at the top of the leaderboard, up over 1% to 8.75.

The USD has been the worst performing of the majors for no particular reason, with a steady grind lower since the European open. This sees NZD climb up to as high as 0.6835 in the early hours this morning, near to the top of the July trading range, with resistance near the 0.6860 mark. This afternoon sees the release of the ANZ business outlook survey, for which we expect to see continued levels of depressed business confidence, something the market should brush off unless there is another big lurch down.

The NZ has outperformed its commodity currency counterparts, with a more modest rise in AUD to 0.7410 seeing NZD/AUD up through 0.92 and reaching its highest level for July in the process. CAD barely responded to the positive US-Mexico trade news, reflecting lingering doubt about a speedy resolution to the Canadian leg of NAFTA negotiations.

Against a soft USD, the yen has made little progress and USD/JPY sits close to 111, with some nervousness ahead of this afternoon's BoJ policy announcement. The last week or so has seen reports that the BoJ may either review its yield curve control policy or tweak its operation, with the idea to improve the longevity of the stimulus programme and reduce the harm it causes to the profitability of commercial banks. It seems that the BoJ would be happier to see long term rates increase but it doesn't want to see a concurrent appreciation of the yen. It's a difficult balancing act and the central bank will need to get its messaging right.

Fears of higher JGB yields means fears of weaker Japanese demand for foreign bonds and this has seen global rates increase recently. Those moves extended overnight, with UK's 10-year rate up 6bps to 1.34% and Germany's 10 year rate up 4bps to 0.44%. That backdrop has seen US 10-year Treasuries nudge up 2bps to currently 2.975%, after reaching a fresh July high of 2.99% overnight. A slightly steeper curve is evident, with the 2-year rate flat.

Apart from NZ's business survey and the BoJ meeting, the other notable event today will be the release of China PMI data. And it's a full economic calendar tonight, with the key releases being euro area CPI data and the US employment cost index.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ Building permits (m/m%)	Jun		7.1	10:45
JN Industrial production (m/m%)	Jun	-0.3	-0.2	11:50
NZ ANZ activity outlook	Jul		9.4	13:00
CH Non-manufacturing PMI	Jul	55.0	55.0	13:00
CH Manufacturing PMI	Jul	51.3	51.5	13:00
AU Building approvals (m/m%)	Jun	1.0	-3.2	13:30
GE Unemployment rate (%)	Jul	5.2	5.2	19:55
EC Unemployment rate (%)	Jun	8.3	8.4	21:00
EC Core CPI Core (y/y%)	Jul	1.0	0.9	21:00
EC CPI (y/y%)	Jul	2.0	2.0	21:00
EC GDP (q/q%)	Q2	0.4	0.4	21:00
JN BOJ 10-Yr Yield Target	Jul	0.0	0.0	
CA GDP (m/m%)	May	0.3	0.1	00:30
US Core PCE (y/y%)	Jun	2.0	2.0	00:30
US Employment cost index (q/q%)	Q2	0.7	0.8	00:30
US Chicago purchasing manager	Jul	61.8	64.1	01:45
US Conf. Board cons. confid.	Jul	126.5	126.4	02:00
NZ QV house prices (y/y%)	Jul		5.7	05:00

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	0.6826	+0.5	0.6794	0.6835	CHF	0.9884	-0.7		S&P 500	2,803	-0.5	13.4	Oil (Brent)	74.90	+0.7
AUD	0.7409	+0.1	0.7390	0.7413	SEK	8.753	-1.1		Dow	25,357	-0.4	16.2	Oil (WTI)	70.03	+1.8
EUR	1.1711	+0.5	1.1648	1.1719	NOK	8.139	-0.7		Nasdaq	7,640	-1.2	19.8	Gold	1221.3	-0.1
GBP	1.3135	+0.2	1.3098	1.3152	HKD	7.848	+0.0		Stoxx 50	3,512	-0.4	1.3	HRC steel	889.0	+0.2
JPY	111.00	-0.0	110.92	111.15	CNY	6.816	+0.0		FTSE	7,701	-0.0	4.5	CRB	195.8	+0.8
CAD	1.3025	-0.2			SGD	1.361	-0.1		DAX	12,798	-0.5	5.2	Wheat Chic.	564.5	+3.0
NZD/AUD	0.9213	+0.4			IDR	14,415	-0.0		CAC 40	5,491	-0.2	7.0	Sugar	10.82	-0.6
NZD/EUR	0.5829	+0.1			THB	33.30	-0.2		Nikkei	22,545	-0.7	13.1	Cotton	90.40	+1.5
NZD/GBP	0.5197	+0.3			KRW	1,120	+0.2		Shanghai	2,869	-0.2	-12.3	Coffee	111.4	+0.7
NZD/JPY	75.77	+0.5			TWD	30.61	+0.0		ASX 200	6,278	-0.3	9.8	WM powder	2980.0	+0.2
NZD/CAD	0.8891	+0.3			PHP	53.19	-0.3		NZX 50	8,921	-0.8	16.0	Australian Futures		
NZ TWI	73.59	+0.5											3 year bond	97.875	-0.02
													10 year bond	97.32	-0.03
Interest Rates							NZ Government Bonds				NZ Swap Yields				
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	2.34	2.88	3.03	USD	2.97	0.01	NZGB 6 05/15/21	1.89	0.00	1 year	2.02	0.01		
AUD	1.50	1.96	2.09	2.85	AUD	2.65	0.01	NZGB 5 1/2 04/15/23	2.12	0.00	2 year	2.14	0.00		
NZD	1.75	1.91	2.14	3.01	NZD	2.58	-0.00	NZGB 2 3/4 04/15/25	2.42	-0.00	5 year	2.55	0.00		
EUR	0.00	0.06	-0.14	0.94	GER	0.45	0.04	NZGB 4 1/2 04/15/27	2.58	-0.00	7 year	2.78	0.00		
GBP	0.50	0.79	1.12	1.59	GBP	1.34	0.06	NZGB 3 04/20/29	2.73	-0.00	10 year	3.03	0.00		
JPY	-0.07	-0.03	0.05	0.33	JPY	0.10	-0.00	NZGB 3 1/2 04/14/33	2.90	0.00	15 year	3.29	0.00		
CAD	1.50	1.17	2.38	2.69	CAD	2.30	0.01	NZGB 2 3/4 04/15/37	3.04	-0.00					

* 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 07:04

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.