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SE Market Wrap

HD **Asia indices lift on Chinese trade moves**

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Australian shares are poised to open higher on Tuesday after better than expected US jobs data lifted optimism in the world's biggest economy and China's improved trade surplus allayed fears of a hard landing.

Regional equities rose on Monday across Asia, boosted by the Chinese import and export figures as well as evidence of faster growth by the Japanese economy in the first quarter.

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Hong Kong's Hang Seng Index was up 0.7 per cent and Japan's Nikkei 225 advanced 0.4 per cent.

The Australian dollar inched higher to US93.50¢ in the mid-afternoon after finishing at US93.39¢ in the final session of last week. The S&P/ASX 200 Index was closed, but futures indicated a 0.3 per cent upswing when trading resumes on Tuesday from its last close of 5464.03 points.

The S&P 500 Index achieved a fresh record on Friday to 1949.44 points after the US economy added 217,000 jobs in May, more than economists expected, and the unemployment rate held firm at 6.3 per cent.

Critically, US employment gains have totalled more than 200,000 for four months in a row. S&P 500 futures were unchanged on Monday.

China's trade surplus widened to a five-year high of $US35.9 billion ($42.1 billion) last month after a sharp drop in imports, official figures released on the weekend showed. Export growth was 7 per cent year-on-year and imports went into negative territory, falling 1.6 per cent.

It comes as the Chinese currency rallied on the back of a higher fix against the US dollar on Monday. The People's Bank of China (PBoC) sets a daily reference rate for the currency, establishing a 2 per cent trading band above or below that figure.

RBS foreign exchange strategist Greg Gibbs said: "Definitely the risk-on mood has continued since the [European Central Bank] has cut rates and the Aussie's performance in that light is not that special," referring to the Australian dollar's 0.2 per cent gain.

Mr Gibbs said the movement in the yuan could represent some kind of realignment in the foreign exchange rate, but it was unclear for what reason.

The PBoC had engineered a depreciation in the yuan earlier this year.NZ rate hike on the cards

Australian unemployment data for May is due on Thursday. The unemployment rate stands at 5.8 per cent; a weaker outcome would lend support to the view that the Reserve Bank of Australia is on hold for the rest of this year. The RBA reaffirmed its expectation for stability in interest rates at its June meeting last week.

Meanwhile, the Reserve Bank of New Zealand meets on Thursday when it is tipped to increase interest rates by 0.25 percentage points after becoming the first developed economy to kick off a rate-hike cycle. The NZ cash rate is at 3 per cent following two rate increases beginning in March.

First NZ Capital economist Chris Green, who has removed a July rate rise from his forecasts, said it appeared the RBNZ was seeing less of a need for the aggressive tightening it initially signalled as dairy auction prices declined.

The drop has failed to put a significant dent in the value of the Kiwi currency, which has a tightening effect on the economy. "You've seen it with Australia as well where you've got this divergence with where the **iron ore** price is going and what the currency is doing," Mr Green said.

The **iron ore** price has plunged to the lowest level since 2012 but the Australian dollar has shrugged off the drag. Spot **iron ore** is fetching $US94.50 a tonne.

The RBNZ's outlook means NZ yields are attractive to overseas investors, a theme that firmed with the European Central Bank's rescue package last week. This means government **bonds** issued by high-yield economies such as Australia and NZ are more desirable to foreign investors but create a currency headache for those central banks.

"You've got a lower global interest rate setting which means even if you're unchanged, you have a higher interest rate setting relatively," Mr Green explained. Australian 10-year **bonds** are yielding 3.77 per cent compared with 4.34 per cent for NZ.

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