

3 December 2018



Events Round-Up

NZ: ANZ consumer confidence, Nov: 118.6 vs. 115.4 prev.

JN: Tokyo CPI ex-fresh food (y/y%), Nov: 1.0 vs. 1.0 exp.

JN: Industrial production (m/m%), Oct: 2.9 vs. 1.2 exp.

CH: Non-manufacturing PMI, Nov: 53.4 vs. 53.8 exp.

CH: Manufacturing PMI, Nov: 50.0 vs. 50.2 exp.

EC: Unemployment rate (%), Oct: 8.1 vs. 8.0 exp.

EC: CPI core (y/y%), Nov: 1.0 vs. 1.1 exp.

CA: GDP (y/y%), Sep: 2.1 vs. 2.3 exp.

US: Chicago purchasing manager, Nov: 66.4 vs. 58.5 exp.

Good Morning

Trading on Friday was fairly subdued as markets awaited the highly anticipated Xi-Trump meeting held at the weekend. US equities were stronger, US rates were lower, while the NZD closed near its recent highs.

As it turned out, Xi and Trump's meeting held Sunday NZ time was highly successful according to both parties. A ceasefire on the trade war was agreed, with the US not proceeding with the planned increase in tariffs from 10% to 25% from 1 January. In return, China agreed to purchase a "very substantial" amount of agriculture, energy, industrial and other products from the US. The Presidents agreed to begin negotiations on "structural changes with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft, services and agriculture". If no agreement is reached after 90 days, then the previously proposed increase in tariffs will proceed. It also looks like China agreed to put some pressure on North Korea that sets the scene for another historic Trump-Kim meeting. Perhaps Trump has one eye on a Nobel Peace prize ahead of the 2020 Presidential election.

The US-China trade war has been a key driver of markets for much of this year and a de-escalation of tension sets the scene for a broadly-based rally in risk assets. While it would be naïve to think that US-China relations are on a new path forward and much will change, some of the negative tail risk from this risk factor appears to have been removed. As previously alluded to, we will have to revise our NZD forecasts higher, which were based on further tariffs proceeding, with the associated hit to global growth and spillover effects. On the open, the NZD has already pushed 0.7% higher to 0.6920-30, while AUD is almost 1% higher at 0.7375.

Towards the end of last week, the market looked to be moving in this direction. The S&P500 ended the week on a strong note, up 0.8% and capping off its best week since 2011, rising by 4.8% – US equity investors seemingly unconcerned about the weekend Xi-Trump dinner date and in a happy mood, putting more weight on the macro environment of not-too-hot growth alongside not-too-high inflationary pressure, which might soon see a pause in the Fed tightening cycle. The Chicago PMI was surprisingly strong in November, creating some doubt whether tonight's more important ISM manufacturing index will show a further reduction. During the Asian session, China PMI data continued to point to slowing growth momentum in the country, with the official manufacturing index now right on the 50.0 mark, its lowest level since mid-2016.

US Treasuries were well supported, driven by the long end into month-end, and as repricing for reduced Fed rate hike expectations continued. The 2-year rate fell by 2bps to 2.79% while the 10-year rate fell by 4bps to 2.99%, its lowest close since mid-September. The bias for rates should be higher as the new week begins.

Oil prices fell by around 1% after data showed that US oil production surged to a record high in September, with preliminary data revised higher, while the Russian energy Minister said that he was comfortable with prices where they currently are. OPEC meets this week and an advisory committee ahead of the meeting suggested a 1.3m barrels-a-day cut from October levels, which helped prices recover a little later in the session. The fall in prices capped off the worst month since the GFC, with Brent crude down over 22% for the month. This dynamic dragged down local petrol prices significantly through November adding to household spending power. It was no coincidence that NZ consumer confidence rose during the month, after the dip in October.

The NZD ended the week on a good note, closing around 0.6880, not far its recent high. That capped off a strong month, up 5½% driven by a more optimistic view of US-China trade relations and stronger domestic data which saw a repricing of RBNZ rate expectations earlier in the month. A covering of short positions was also a likely factor.

EUR was the weakest of the majors, down 0.7% to 1.1315. Core euro-area inflation slipped back down to 1.0% y/y in November while the unemployment rate held up at 8.1% against expectations of a nudge down. The soft data are the last key indicators before the ECB meets

next week. The asset purchase programme will still draw to a close at the end of the year, but it's hard to see the Bank becoming more hawkish about the outlook – it is likely to reiterate that policy will remain extremely accommodative, with rates on hold “through the summer” of 2019. NZD/EUR closed the week just under 0.6080, its highest level in over a year.

GBP was modestly weaker, closing the week at 1.2750, with NZD/GBP just under 0.54. Media reported that a number of MPs, including Cabinet Ministers, are secretly discussing pivoting towards a Norway-style plan B should PM May's deal gets rejected by Parliament. On current numbers a first round defeat in Parliament looks the most likely scenario.

NZ rates continued to drift lower, driven by global forces. Rates were down by 1-2bps across the government bond and swaps curve, but rates should reverse course today.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Terms of trade (q/q%)	Q3	0.0	0.6	10:45
AU	Building approvals (m/m%)	Oct	-1.5	3.3	13:30
CH	Caixin PMI manufacturing	Nov	50.1	50.1	14:45
UK	Markit PMI manufacturing	Nov	51.7	51.1	22:30
US	ISM manufacturing	Nov	57.5	57.7	04:00

Source: Bloomberg, BNZ.

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)				Other FX			Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day		
NZD	0.6879	+0.2	0.6852	0.6886	CHF	0.9979	+0.2	S&P 500	2,760	+0.8	4.5	Oil (Brent)	59.46	-0.8
AUD	0.7313	-0.2	0.7285	0.7321	SEK	9.105	+0.4	Dow	25,538	+0.8	5.4	Oil (WTI)	50.93	-1.0
EUR	1.1317	-0.7	1.1311	1.1397	NOK	8.619	+1.0	Nasdaq	7,331	+0.8	7.1	Gold	1220.2	-0.3
GBP	1.2749	-0.3	1.2735	1.2810	HKD	7.824	+0.0	Stoxx 50	3,173	-0.0	-10.0	HRC steel	771.0	-0.3
JPY	113.57	+0.1	113.36	113.65	CNY	6.961	+0.3	FTSE	6,980	-0.8	-4.4	CRB	181.7	-0.3
CAD	1.3292	+0.1			SGD	1.372	+0.1	DAX	11,257	-0.4	-12.5	Wheat Chic.	515.8	+1.6
NZD/AUD	0.9407	+0.5			IDR	14,302	-0.6	CAC 40	5,004	-0.3	-5.9	Sugar	12.84	-0.2
NZD/EUR	0.6078	+0.9			THB	32.94	+0.1	Nikkei	22,351	+0.4	-2.1	Cotton	77.16	+0.7
NZD/GBP	0.5396	+0.6			KRW	1,121	+0.1	Shanghai	2,588	+0.8	-22.0	Coffee	107.6	-4.2
NZD/JPY	78.12	+0.2			TWD	30.82	+0.0	ASX 200	5,667	-1.6	-5.4	WM powder	2715.0	-0.9
NZD/CAD	0.9144	+0.3			PHP	52.44	+0.0	NZX 50	8,824	+0.3	7.8	Australian Futures		
NZ TWI	75.19	+0.4										3 year bond	97.935	0.03
												10 year bond	97.42	0.03
Interest Rates							NZ Government Bonds				NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	2.25	2.74	2.96	3.04	USD	2.99	-0.04	NZGB 6 05/15/21	1.80	-0.01	1 year	2.00	-0.01	
AUD	1.50	1.95	2.02	2.78	AUD	2.59	-0.01	NZGB 5 1/2 04/15/23	2.01	-0.02	2 year	2.09	-0.02	
NZD	1.75	1.98	2.08	2.87	NZD	2.40	-0.01	NZGB 2 3/4 04/15/25	2.23	-0.02	5 year	2.44	-0.02	
EUR	0.00	0.06	-0.15	0.88	GER	0.31	-0.01	NZGB 4 1/2 04/15/27	2.40	-0.01	7 year	2.66	-0.01	
GBP	0.75	0.90	1.17	1.56	GBP	1.36	-0.00	NZGB 3 04/20/29	2.56	-0.01	10 year	2.90	-0.02	
JPY	-0.07	-0.11	0.02	0.24	JPY	0.09	0.01	NZGB 3 1/2 04/14/33	2.74	-0.01	15 year	3.14	-0.02	
CAD	1.75	1.17	2.51	2.73	CAD	2.27	-0.04	NZGB 2 3/4 04/15/37	2.88	-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: NY close Sat morn

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.