

4 December 2018



Events Round-Up

NZ: Terms of trade (q/q%), Q3: -0.3 vs. 0.0 exp.

CH: Caixin PMI manufacturing, Nov: 50.2 vs. 50.1 exp.

UK: Markit PMI manufacturing, Nov: 53.1 vs. 51.7 exp.

US: ISM manufacturing, Nov: 59.3 vs. 57.5 exp.

Good Morning

The “highly successful” Xi-Trump meeting at the weekend triggered an improvement in risk sentiment to begin the new week, seeing equity markets rise and commodity currencies outperform. US 10 year rates opened higher, but have fallen away to be little changed just under 3%.

Markets are trading on the afterglow from the Xi-Trump meeting, where a ceasefire on further tariffs was agreed. That said, a degree of skepticism overhangs the “deal”, which has moderated the market reaction. Trump has named US Trade Representative Lighthizer to head trade negotiations, who is a known hard-liner that has been pressing for more tariffs against China. The Chinese negotiators won't be happy with that decision. Trump tweeted that China has agreed to “reduce and remove” tariffs on American-made cars, but there are no details and China has not responded.

The S&P500 opened up 1.4% higher, but the gain has since been pared down to 0.8%. The US 10-year rate was up as much as 6bps to 3.05% during Asian trading, but lost ground as oil prices retraced and following the ISM report. The 10-year rate now trades little changed just under 3%, to drive a flatter curve, with the 2 year rate up 3bps.

The US ISM manufacturing index recovered in November, stronger than market expectations but as forewarned by the Chicago PMI last week. Perhaps more importantly for the market, the prices paid index fell by 11 points to 60.7, to be now slightly below average, consistent with the idea that US inflation pressure will ease, given the recent strength of the USD and much lower oil prices.

A number of Fed speakers were out overnight. Vice-chair Clarida's comments on Bloomberg TV looked a little hawkish, as he played up the “symmetry” around the Fed's inflation target, not concerned about overshooting the 2% target; and playing down the concept of a “Powell put”, cautioning investors against thinking that the Fed

would act to halt a sharp stockmarket decline. Fed President Kaplan's comments were more on the dovish side. He urged the central bank to tread carefully and be “very patient” as it considers further increases in US interest rates. He was seeing signs of weakness in sectors sensitive to higher interest rates, such as housing, as well as more sluggish growth readings overseas and tepid US inflation data. “I want to avoid a situation where we have overdone it...I think because inflation readings are more muted, we have the luxury to be patient and be very vigilant here, and try to avoid making that mistake”, adding that there are a number of possible “downside risks” that could hit the economy in the months ahead. This is the line of thinking that the market has recently adopted. The Fed's Quarles said the Fed is following a policy strategy and “will be following this path until there's a significant reason to change”.

Oil prices opened stronger and Brent crude was up as much as 6.6% at \$62.60 at one stage, before paring the gain to 2½%, now trading around \$61. The “high 5” that Putin and the Saudi Crown Prince gave each other was seen as a sign of cooperation that OPEC and friends will cut production when they meet later this week. The two countries agreed to extend into 2019 their deal to manage the market.

In currency markets, CNY has been a key beneficiary of the trade war ceasefire, with USD/CNY down more than 1% to 6.8830. Treasury Secretary Mnuchin told reporters that the US got a “strong commitment” from China to deal with currency devaluation. The NZD has held onto the gains seen as the Monday open in overnight trading, with the high around 0.6940 and currently up 0.8% from the weekend close at 0.6930. Commodity currencies have been the best performers of the majors, with the AUD and CAD both up around 0.8%, the former currently at 0.7360. We are cautious in predicting a further strong rally in the NZD after the 5½% gain in November and Monday's gains, with our short-term fair value estimate currently sitting just below 0.67. The NZD has moved from very cheap to moderately expensive in a very short space of time and is now overdue for a period of consolidation.

Amongst the other majors, JPY and GBP are all flat against the USD, with USD/JPY at 113.60 and GBP/USD at 1.2730. The UK Attorney General confirmed that Britain will not be able to cancel the Irish backstop clause without approval from the EU, as he gave legal advice to MPs May's Brexit deal. EUR is up 0.3% to 1.1350, perhaps supported by incrementally positive news on the Italian

budget standoff with the EU. Italy's 10-year rate fell to a 2-month low, with one paper reporting that PM Conte is convincing Salvini and Maio to lower the deficit to meet EU demands.

In the day ahead the RBA's latest policy announcement should pass with little reaction, as the Bank remains firmly on hold. In tonight's GDT dairy auction we are expecting the first increase in average dairy prices for the season that began 1 June.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Current a/c bal (\$b)	Q3	-10.2	-13.5	13:30
AU	Net exports (%contrib to GDP)	Q3	0.3	0.1	13:30
AU	RBA cash rate target (%)	Dec	1.5	1.5	16:30
UK	BOE Governor Carney speaks at UK Parliament				22:15
UK	Construction PMI	Nov	52.5	53.2	22:30
NZ	GDT dairy auction (avg. price)			2727	
NZ	QV house prices (y/y%)	Nov		5.4	05:00

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	0.6930	+0.8	0.6905	0.6940	CHF	0.9981	+0.0	S&P 500	2,782	+0.8	5.3	Oil (Brent)	61.15	+2.8
AUD	0.7360	+0.7	0.7355	0.7393	SEK	9.022	-0.9	Dow	25,796	+1.0	6.5	Oil (WTI)	52.59	+3.2
EUR	1.1354	+0.3	1.1319	1.1380	NOK	8.536	-1.0	Nasdaq	7,430	+1.4	8.5	Gold	1232.8	+1.0
GBP	1.2735	-0.1	1.2699	1.2825	HKD	7.815	-0.1	Stoxx 50	3,215	+1.3	-8.9	HRC steel	778.0	+0.9
JPY	113.67	+0.1	113.38	113.64	CNY	6.883	-1.1	FTSE	7,062	+1.2	-3.3	CRB	183.1	+0.7
CAD	1.3187	-0.8			SGD	1.367	-0.4	DAX	11,465	+1.8	-10.9	Wheat Chic.	521.3	+1.1
NZD/AUD	0.9416	-0.0			IDR	14,244	-0.4	CAC 40	5,054	+1.0	-4.9	Sugar	12.89	+0.4
NZD/EUR	0.6104	+0.4			THB	32.79	-0.5	Nikkei	22,575	+1.0	-0.6	Cotton	80.00	+3.7
NZD/GBP	0.5442	+0.9			KRW	1,111	-0.9	Shanghai	2,655	+2.6	-19.8	Coffee	107.8	+0.2
NZD/JPY	78.77	+1.0			TWD	30.72	-0.3	ASX 200	5,771	+1.8	-3.6	WM powder	2735.0	+0.7
NZD/CAD	0.9139	+0.0			PHP	52.30	-0.3	NZX 50	8,876	+0.6	8.4	Australian Futures		
NZ TWI	75.47	+0.4										3 year bond	97.935	0.00
												10 year bond	97.43	0.00
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	3.00	3.05	USD	3.00	0.01	NZGB 6 05/15/21	1.82	0.01	1 year	2.00	0.00	
AUD	1.50	1.96	2.02	2.77	AUD	2.62	0.02	NZGB 5 1/2 04/15/23	2.03	0.02	2 year	2.10	0.01	
NZD	1.75	1.97	2.08	2.88	NZD	2.42	0.02	NZGB 2 3/4 04/15/25	2.25	0.02	5 year	2.46	0.02	
EUR	0.00	0.06	-0.15	0.88	GER	0.31	-0.01	NZGB 4 1/2 04/15/27	2.42	0.02	7 year	2.68	0.02	
GBP	0.75	0.89	1.14	1.51	GBP	1.31	-0.05	NZGB 3 04/20/29	2.57	0.02	10 year	2.91	0.02	
JPY	-0.06	-0.12	0.02	0.24	JPY	0.09	-0.01	NZGB 3 1/2 04/14/33	2.75	0.02	15 year	3.16	0.02	
CAD	1.75	1.17	2.53	2.73	CAD	2.26	-0.01	NZGB 2 3/4 04/15/37	2.90	0.02				

* 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 07:12

Source: Bloomberg

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