

4 February 2019



Events Round-Up

NZ: ANZ consumer confidence, Jan: 121.7 vs. 121.9 prev.

CH: Caixin manufacturing PMI, Jan: 48.3 vs. 49.6 exp.

UK: UK PMI Manufacturing, Jan: 52.8 vs. 53.5 exp.

EC: Core CPI (y/y%), Jan: 1.1 vs. 1.0 exp.

US: Change in nonfarm payrolls (k), Jan: 304 vs. 165 exp.

US: Unemployment rate (%), Jan: 4.0 vs. 3.9 exp.

US: Average hourly earnings (m/m%), Jan: 0.1 vs. 0.3 exp.

US: Average hourly earnings (y/y%), Jan: 3.1 vs. 3.2 exp.

US: ISM Manufacturing, Jan: 56.6 vs. 54.0 exp.

Good Morning

Strong US data on Friday saw US Treasury rates move 4-7bps higher across the curve. The rise in rates tempered the lift in US equities, while currency movements were generally modest, apart from some softness in the yen.

The key feature on Friday, was a series of stronger than expected data reports in the US, that helped lift Citigroup's US economic surprise index onto a vertical plane.

The US employment report was mixed with much stronger employment growth than expected even accounting for negative revisions, while the unemployment rate ticked higher and wage inflation was on the soft side. Looking through the noise in the data, employment growth remains solid, and will drive the unemployment rate lower if sustained, while the trend for wage inflation remains higher. That was the message taken by the bond market, which took yields higher. A stronger than expected rebound in the ISM manufacturing index and stronger than expected consumer sentiment and construction data supported the move. Treasury rates were 4-7bps higher across the curve, with the 2-year rate up 4bps to 2.50% and the 10-year rate up 5.5bps to 2.685% – the 5-year rate rose by 7bps, taking the brunt of the impact of the strong data.

The S&P500 index rose by only 0.1%, with performance held back by the rising yield backdrop but a weekly gain of 1.6% was still recorded, taking the recovery since Christmas Eve up to 15% – about half of those gains coming from early January after signals from the Fed that it was "listening" to markets.

The current round of US-China trade talks concluded Friday morning NZ time, with the White House releasing a

statement saying that "while progress has been made, much work remains to be done". The statement from the Chinese delegation said that discussions were "candid, specific and fruitful". Reading between the lines the two sides look far from making agreement on the thorny issues of alleged Chinese IP theft, forced technology transfers, and Chinese state subsidies to producers. Treasury Secretary Mnuchin and US Trade Rep. Lighthizer will head to Beijing mid-month for the next round of talks ahead of a possible Trump-Xi meeting in late-February.

Currency markets were fairly quiet on Friday. The NZD met some resistance near the 0.6940 mark – as it did in the previous session – and drifted down into the NY close, ending just below 0.69. AUD was also on the soft side, closing the week around 0.7250, leaving NZD/AUD near 0.95. Of the commodity currencies, CAD performed the best, supported by a near-3% lift in oil prices, with signs of short-sellers capitulating further after the strong rally in prices through January.

JPY was the weakest of the majors, given the rise in US rates. USD/JPY was up 0.6% for the session to 109.50, while NZD/JPY continued to push higher, closing the week at 75.5. GBP was also on the soft side slipping back below 1.31, not helped by a weaker PMI manufacturing reading. Core CPI data for the euro area came in slightly stronger than expected, but this was ignored by the market, with the annual 1.1% reading still well below ECB comfort levels. EUR managed to hold its ground against the USD, ending the week around 1.1450.

NZ rates fell on Friday, following the previous US session's moves. NZ's 10-year government rate fell by 6bps to 2.19%, getting within spitting distance of the record low of 2016, although we'd expect to see some retracement today.

The economic calendar is light to begin the week. Highlights this week will be NZ labour market data on Thursday and the RBA meeting tomorrow. US economic releases are still being held up by the recent government shutdown, with a backlog of data to be released over coming weeks.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ Building permits (m/m%)	Dec		-2.0	10:45
AU Building approvals (m/m%)	Dec	2.0	-9.1	13:30
UK Markit construction PMI	Jan	52.5	52.8	22:30

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	0.6895	-0.2	0.6891	0.6942	CHF	0.9956	+0.1		S&P 500	2,707	+0.1	-2.0	
AUD	0.7250	-0.3	0.7237	0.7284	SEK	9.051	+0.0		Dow	25,064	+0.3	-1.8	
EUR	1.1456	+0.1	1.1435	1.1488	NOK	8.439	+0.1		Nasdaq	7,264	-0.2	0.3	
GBP	1.3079	-0.2	1.3044	1.3115	HKD	7.847	+0.0		Stoxx 50	3,171	+0.4	-10.0	
JPY	109.50	+0.6	108.84	109.58	CNY	6.742	+0.7		FTSE	7,020	+0.7	-5.7	
CAD	1.3102	-0.2			SGD	1.350	+0.3		DAX	11,181	+0.1	-12.5	
NZD/AUD	0.9510	+0.0			IDR	13,948	-0.2		CAC 40	5,019	+0.2	-6.4	
NZD/EUR	0.6019	-0.4			THB	31.31	+0.3		Nikkei	20,788	+0.1	-10.7	
NZD/GBP	0.5272	-0.1			KRW	1,119	+0.6		Shanghai	2,618	+1.3	-24.4	
NZD/JPY	75.50	+0.3			TWD	30.74	+0.1		ASX 200	5,863	-0.0	-4.2	
NZD/CAD	0.9034	-0.4			PHP	52.27	+0.2		NZX 50	8,999	+0.2	6.9	
NZ TWI	74.61	+0.0											
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			
USD	2.50	2.74	2.65	2.71	USD	2.68	0.05	NZGB 6 05/15/21	1.69	-0.01	1 year	1.91	0.01
AUD	1.50	2.05	1.90	2.50	AUD	2.21	-0.04	NZGB 5 1/2 04/15/23	1.72	-0.03	2 year	1.92	0.00
NZD	1.75	1.93	1.92	2.51	NZD	2.02	-0.05	NZGB 2 3/4 04/15/25	1.88	-0.04	5 year	2.09	-0.01
EUR	0.00	0.06	-0.16	0.70	GER	0.17	0.02	NZGB 4 1/2 04/15/27	2.02	-0.05	7 year	2.27	-0.02
GBP	0.75	0.91	1.10	1.42	GBP	1.25	0.03	NZGB 3 04/20/29	2.19	-0.06	10 year	2.51	-0.03
JPY	-0.06	-0.09	-0.02	0.13	JPY	-0.01	-0.02	NZGB 3 1/2 04/14/33	2.37	-0.06	15 year	2.77	-0.02
CAD	1.75	1.17	2.24	2.47	CAD	1.96	0.08	NZGB 2 3/4 04/15/37	2.55	-0.06			

* 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

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