

5 February 2019



Events Round-Up

NZ: Building permits (m/m%), Dec: 5.1 vs. -1.9 prev.

AU: Building approvals (m/m%), Dec: -8.4 vs. 2.0 exp.

UK: Markit construction PMI, Jan: 50.6 vs. 52.5 exp.

Good Morning

On a slow news day, US Treasury yields have extended their rise following the strong US data reports on Friday, supporting a broadly-based, albeit modest, rally in the USD, while the S&P500 shows modest gains.

It has been a slow start to the week, with China on holiday and a lack of newsflow. Tomorrow President Trump will deliver his State of the Union speech at 3pm NZ time. A White House official said that Trump will seek a "unifying, optimistic tone". Topics to be touched on include (i) immigration and border security, where Trump may mention his threat to declare a "national emergency" if Congress cannot agree to fund his proposed wall, (ii) trade, with an update on the progress of new trade talks with China and (iii) "Rebuilding America", asking Congress to pass an infrastructure package.

The US 10-year Treasury rate is up 4bps to 2.72%, adding to the 5.5bps gain on Friday that came after the strong employment and ISM manufacturing reports alongside positive second-tier data. The gain in yields has been across the curve, with the 2-year rate up 3bps. Since those reports, about 6bps of Fed easing has been priced out of the curve through the end of 2020. The curve remains flat through this year as the market sees policy unchanged, but has lost some conviction that the Fed will ease policy in 2020.

Higher US rates are supporting the USD but gains have been modest, in the order of 0.3% across the various indices. Against that backdrop, the NZD has slipped a little to 0.6880. This is only about a cent higher than our short-term fair value estimate, so well within the error bounds such that we'd consider the NZD pretty fairly priced and well within the 0.67-0.70 range we have been talking about over the past couple of months.

AUD has slightly underperformed the NZD and sits this morning at 0.7215, not helped by the unexpected plunge in building approvals in December, which followed a plunge in November. The contrast with NZ dwelling consents, which remain close to cyclical highs, couldn't be greater and supports our view of an upside bias to the

NZD/AUD cross over coming months. Australia's Banking Royal Commission report was released yesterday afternoon and its recommendations were widely seen as light-handed compared to what could have been produced. As the SMH reported, "the report stopped short of making any radical changes to responsible lending requirements, which should alleviate concerns about a credit crunch that could worsen the housing market or impact the economy."

The USD has made modest gains against the other majors, more so against the yen, given the further rise in US Treasury rates. USD/JPY is up 0.4% to around 110. GBP has been a bit choppy but has overall performed in line with the euro, both slipping about 0.2% against the USD. The UK PMI construction index came in worse than expected, falling close to the 50 mark with Brexit as the most-cited concern amongst survey respondents. Sentiment for GBP won't be helped by the weekend news that Nissan wouldn't go ahead with a new plant in the UK, with the Chairman saying "The continued uncertainty around the UK's future relationship with the EU is not helping companies like ours to plan for the future".

The NZ rates market outperformed yesterday, with a muted reaction to Friday night's sell-off of US Treasuries. In fact, the bias for NZ government rates was slightly to the downside, with the 10-year rate down 1bp to 2.18%. Swap rates rose by 2bps across the curve.

In the day ahead, Australia retail sales and trade data followed by the RBA policy statement will be in focus. The RBA is expected to keep policy unchanged on Tuesday, but we might see some more dovish comments creep into the policy statement. Governor Lowe's speech on the NZ Waitangi Day holiday tomorrow might prove to be more of a market mover. He will provide more detail on the policy outlook and in particular the market wants to know whether he'll maintain the line that "the next move in interest rates is more likely to be an increase than a decrease". A changing of that tone could have a significant impact on the AUD and rates.

In other releases, tonight's US non-manufacturing ISM index is the key, while the following night we expect the GDT dairy auction to show some consolidation in prices after a decent recovery in prices over the past four auctions.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance (\$m)	Dec	2225	1925	13:30
AU Retail sales (m/m%)	Dec	0.0	0.4	13:30
AU Retail sales ex inflation (q/q%)	Q4	0.5	0.2	13:30
US Fed's Mester discusses economic outlook & mon. pol.				13:30
AU RBA Cash Rate Target		1.5	1.5	16:30
UK Markit services PMI	Jan	51.0	51.2	22:30
US ISM non-manufacturing index	Jan	57.0	57.6	04:00
Following 24hrs:				Wed/Thurs
AU RBA's Lowe gives speech in Sydney				14:30
GE Factory orders (m/m%)	Dec	0.3	-1	20:00
NZ GDT dairy auction avg. winning price			3057	
US Trade balance (\$b)	Nov	-54.0	-55.5	02:30

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	0.6876	-0.3	0.6870	0.6898	CHF	0.9980	+0.2	S&P 500	2,714	+0.3	-1.7	Oil (Brent)	62.53	-0.4
AUD	0.7216	-0.5	0.7211	0.7239	SEK	9.107	+0.6	Dow	25,095	+0.1	-1.7	Oil (WTI)	54.34	-1.7
EUR	1.1431	-0.2	1.1425	1.1454	NOK	8.474	+0.4	Nasdaq	7,329	+0.9	1.2	Gold	1314.1	-0.2
GBP	1.3046	-0.3	1.3041	1.3103	HKD	7.847	-0.0	Stoxx 50	3,165	-0.2	-10.2	HRC steel	686.0	-1.0
JPY	109.91	+0.4	109.60	110.16	CNY	6.742	+0.7	FTSE	7,034	+0.2	-5.5	CRB	180.5	-0.0
CAD	1.3135	+0.3			SGD	1.353	+0.2	DAX	11,177	-0.0	-12.6	Wheat Chic.	527.8	-0.1
NZD/AUD	0.9529	+0.2			IDR	13,962	+0.1	CAC 40	5,000	-0.1	-6.8	Sugar	12.84	+1.9
NZD/EUR	0.6015	-0.0			THB	31.31	+0.0	Nikkei	20,884	+0.5	-7.9	Cotton	72.95	-0.9
NZD/GBP	0.5271	-0.0			KRW	1,121	+0.2	Shanghai	2,618	+1.3	-24.4	Coffee	105.8	+1.9
NZD/JPY	75.57	+0.0			TWD	30.81	+0.2	ASX 200	5,891	+0.5	-2.2	WM powder	2845.0	+0.0
NZD/CAD	0.9032	-0.1			PHP	52.43	+0.3	NZX 50	8,979	-0.2	8.9	Australian Futures		
NZ TWI	74.41	-0.1										3 year bond	98.26	0.01
Interest Rates										10 year bond			97.76	0.01
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day		Last		Last			
USD	2.50	2.73	2.67	2.75	USD	2.73	0.04	NZGB 6 05/15/21	1.70	0.00	1 year	1.93	0.01	
AUD	1.50	2.04	1.88	2.49	AUD	2.23	0.03	NZGB 5 1/2 04/15/23	1.73	0.01	2 year	1.94	0.02	
NZD	1.75	1.92	1.92	2.52	NZD	2.01	-0.01	NZGB 2 3/4 04/15/25	1.87	-0.00	5 year	2.11	0.02	
EUR	0.00	0.06	-0.15	0.71	GER	0.18	0.01	NZGB 4 1/2 04/15/27	2.01	-0.01	7 year	2.29	0.02	
GBP	0.75	0.91	1.11	1.45	GBP	1.28	0.03	NZGB 3 04/20/29	2.18	-0.01	10 year	2.52	0.02	
JPY	-0.06	-0.08	-0.02	0.14	JPY	-0.01	0.00	NZGB 3 1/2 04/14/33	2.36	-0.01	15 year	2.79	0.02	
CAD	1.75	1.17	2.24	2.48	CAD	1.96	0.01	NZGB 2 3/4 04/15/37	2.54	-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 06:57

Source: Bloomberg

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