

6 December 2018



Events Round-Up

NZ: Volume of building work (q/q%), Q3: 0.7 vs. 2.3 exp.

AU: GDP (q/q%), Q3: 0.3 vs. 0.6 exp.

AU: GDP (y/y%), Q3: 2.8 vs. 3.3 exp.

CH: Caixin PMI services, Nov: 53.8 vs. 50.7 exp.

UK: Services PMI, Nov: 50.4 vs. 52.5 exp.

CA: Bank of Canada O/N rate (%): Dec: 1.75 vs. 1.75 exp.

Good Morning

Trading conditions are quiet with the US on holiday to mark the death of President George HW Bush. The AUD and CAD are the weakest performers after weak data and a dovish monetary policy statement respectively, while GBP is better bid after a poor run recently.

US markets are closed but S&P futures are up 0.6%, supported by a bit more confidence that Xi and Trump actually agreed stuff on trade at the weekend and it wasn't just a figment of Trump's imagination. This sets the scene for US equities possibly recovering tonight and perhaps rates rising a little. Europe's Stoxx 600 index fell by "only" 1.2%, with the market reacting to the previous 3+% fall on Wall Street, much of which came after the prior Europe close.

China's Ministry of Commerce published a brief Q&A on the Xi-Trump meeting, noting that it was "very successful" and "we have confidence in the implementation". Teams from both sides would work with a clear timetable and road map, noting the 90-day period and prioritising "implementing specific issues that have reached consensus, the sooner the better". Bloomberg reported that China had begun preparing to restart imports of US soybeans and LNG.

In currency markets, CAD is bottom of the leaderboard following the Bank of Canada's policy update. USD/CAD is up 0.8% to 1.3360 while NZD/CAD is up 0.4% to 0.9225, after reaching its highest level since April around 0.9250. After a series of rate hikes there is now some doubt about the speed of further rate hikes towards neutral. The Bank cited moderating global growth, the plunge in oil prices, softer inflation and downward revisions to growth, and added that "there may be additional room for non-inflationary growth." The market pared back future rate rises, although still sees a high chance of another hike by the March meeting.

AUD fell after a much weaker Q3 GDP figure, with downward revisions meaning that the "miss" on an annual basis was a hefty 0.5 percentage points. So the economy is much softer after a good run and this can only add to the chorus of bearish reports on the Australian housing market. AUD is down 1% from this time yesterday, losing further ground overnight to trade at 0.7270.

The softer AUD and CAD have spilled over into a weaker NZD, which is down about 0.4% to 0.69. In yesterday's note we highlighted the "good chance" that NZD/AUD would break 0.95 and it reached as high as 0.9509 overnight. Normally, we'd say this would be a good selling level, being at top of the familiar 0.90-0.95 range the cross rate has spent much of the time this year, but we think there is a good chance that the April high of 0.9534 is broken. Momentum and fundamental forces are currently in NZ's favour and the cross could well probe fresh highs over coming months.

GBP is the strongest of the majors despite the key services PMI unexpectedly falling towards a recessionary level, although the gain has been modest, up 0.2% to 1.2750. Focus remains on Brexit. PM May was forced to publish previously secret legal advice which noted that the so-called customs backstop – the insurance mechanism that kicks in if the Irish border issue cannot be resolved – would remain "indefinitely" until a superseding agreement took its place. May realises that her Withdrawal Agreement will need to change to get through Parliament next week and is now exploring options to do so. The more positive vibe on GBP reflects the more assertive role that Parliament will have in any Brexit vote, removing a chaotic "no-deal" scenario from the list of permutations. The chance of the UK remaining in the EU – forever or for an extended period – has increased. It seems that the key risk in the way of a strong recovery in GBP is the possibility of fresh elections that sees a socialist Labour government take the reins, so GBP still looks like a binary currency depending on the outcome.

EUR is flat around 1.1350, supported by GBP and a receding risks regarding Italy's budget standoff with the EU. The Italy-Germany 10-year bond spread is down to a 10-week low. Still, Italy looks perilously close to recession and that factor could remain a drag on EUR for some time yet.

Yesterday, the NZ rates market continued to probe fresh lows, reflecting the tailwind from global forces. The 2-year rate swap rate fell by 2bps to 2.06% while the 10-year rate fell by 3bps to 2.83%. NZ's generic 10-year

government bond yield closed at 2.47%, its lowest level in over two years.

Today sees the release of Australian trade and retail sales data, with the key release tonight being the US ISM non-manufacturing index, which is expected to show some moderation off a high base.

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Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|------------------------------|--------|-------|-------|-------|
| AU | Trade balance (\$m) | Oct | 3000 | 3017 | 13:30 |
| AU | Retail sales (m/m%) | Oct | 0.3 | 0.2 | 13:30 |
| NZ | NZ to sell \$100m 2040 Bonds | | | | 14:05 |
| GE | Factory orders (m/m%) | Oct | -0.4 | 0.3 | 20:00 |
| US | ADP employment chg (k) | Nov | 195 | 227 | 02:15 |
| US | Trade balance (\$b) | Oct | -55.0 | -54.0 | 02:30 |
| US | ISM non-manufacturing index | Nov | 59.0 | 60.3 | 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 | % Year | Last | Net Day | | | |
| NZD | 0.6904 | -0.4 | 0.6899 | 0.6931 | CHF | 0.9975 | +0.0 | S&P 500 | 2,700 | -3.2 | 2.7 | Oil (Brent) | 62.52 | +0.7 |
| AUD | 0.7275 | -0.9 | 0.7260 | 0.7301 | SEK | 8.977 | -0.4 | Dow | 25,027 | -3.1 | 3.5 | Oil (WTI) | 53.68 | +0.8 |
| EUR | 1.1352 | +0.1 | 1.1311 | 1.1361 | NOK | 8.501 | -0.1 | Nasdaq | 7,158 | -3.8 | 5.9 | Gold | 1237.0 | -0.3 |
| GBP | 1.2745 | +0.2 | 1.2672 | 1.2798 | HKD | 7.813 | +0.1 | Stoxx 50 | 3,150 | -1.2 | -11.8 | HRC steel | 765.0 | -0.8 |
| JPY | 113.14 | +0.3 | 112.92 | 113.23 | CNY | 6.857 | +0.3 | FTSE | 6,922 | -1.4 | -5.5 | CRB | 184.2 | +0.1 |
| CAD | 1.3366 | +0.8 | | | SGD | 1.367 | +0.1 | DAX | 11,200 | -1.2 | -14.2 | Wheat Chic. | 518.8 | -0.7 |
| NZD/AUD | 0.9490 | +0.5 | | | IDR | 14,403 | +0.8 | CAC 40 | 4,944 | -2.3 | -8.0 | Sugar | 12.75 | +0.0 |
| NZD/EUR | 0.6082 | -0.4 | | | THB | 32.75 | -0.0 | Nikkei | 21,919 | -0.5 | -1.2 | Cotton | 78.77 | -0.2 |
| NZD/GBP | 0.5417 | -0.6 | | | KRW | 1,114 | +0.8 | Shanghai | 2,650 | -0.6 | -19.6 | Coffee | 106.0 | -0.9 |
| NZD/JPY | 78.11 | -0.0 | | | TWD | 30.80 | +0.4 | ASX 200 | 5,668 | -0.8 | -4.7 | WM powder | 2740.0 | +0.2 |
| NZD/CAD | 0.9228 | +0.4 | | | PHP | 52.74 | +0.3 | NZX 50 | 8,782 | -1.0 | 8.0 | Australian Futures | | |
| NZ TWI | 75.31 | -0.1 | | | | | | | | | | 3 year bond | 97.99 | 0.02 |
| | | | | | | | | | | | | 10 year bond | 97.48 | -0.01 |
| 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 | 2.98 | USD | 2.91 | 0.00 | NZGB 6 05/15/21 | 1.77 | -0.01 | 1 year | 2.00 | 0.00 | |
| AUD | 1.50 | 1.97 | 1.98 | 2.72 | AUD | 2.50 | -0.03 | NZGB 5 1/2 04/15/23 | 1.95 | -0.04 | 2 year | 2.06 | -0.02 | |
| NZD | 1.75 | 1.97 | 2.07 | 2.84 | NZD | 2.32 | -0.04 | NZGB 2 3/4 04/15/25 | 2.15 | -0.04 | 5 year | 2.38 | -0.04 | |
| EUR | 0.00 | 0.06 | -0.14 | 0.87 | GER | 0.28 | 0.01 | NZGB 4 1/2 04/15/27 | 2.32 | -0.04 | 7 year | 2.60 | -0.04 | |
| GBP | 0.75 | 0.90 | 1.17 | 1.50 | GBP | 1.32 | 0.03 | NZGB 3 04/20/29 | 2.47 | -0.03 | 10 year | 2.83 | -0.03 | |
| JPY | -0.07 | -0.12 | 0.01 | 0.22 | JPY | 0.07 | -0.01 | NZGB 3 1/2 04/14/33 | 2.65 | -0.04 | 15 year | 3.08 | -0.02 | |
| CAD | 1.75 | 1.17 | 2.43 | 2.65 | CAD | 2.13 | -0.04 | NZGB 2 3/4 04/15/37 | 2.80 | -0.04 | | | | |

* 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 06:53

Source: Bloomberg

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