

7 December 2018



Events Round-Up

AU: Trade balance (\$m), Oct: 2316 vs. 3000 exp.

AU: Retail sales (m/m%), Oct: 0.3 vs. 0.3 exp.

GE: Factory orders (m/m%), Oct: 0.3 vs. -0.4 exp.

US: ADP employment chg (k), Nov: 179 vs. 195 exp.

US: Trade balance (\$b), Oct: -55.5 vs. -55.0 exp.

US: ISM non-manufacturing index, Nov: 60.7 vs. 59.0 exp.

Good Morning

Risk appetite has taken another hit which sees safe-haven currencies like JPY and CHF outperform, while commodity currencies have underperformed. Global equity markets are a lot lower, while US 10 year rates are down to a fresh 3-month low.

Investors see a "wall of worry" which includes the slowdown in global growth and hints that this is spilling over into the US economy, parts of the US yield curve going negative earlier this week and its role as a leading indicator of economic recession, and the US-China trade war which remains an ever-present threat. After previously tracking higher during the special US holiday on Wednesday, S&P futures opened weaker in Asia after reports of the arrest of the Huawei Technologies CFO in Canada at the request of the US, which seeks to extradite her to face charges over violating US sanctions against Iran.

The news came at a time when markets were already concerned about the US-China trade war and the arrest is seen by many as another source of US-China confrontation, striking at the heart of President Xi's ambitions to make the country a technology superpower. Whether or not this was the key reason for another slump in Wall Street, we'll never know, but the announcement of the arrest came at a time when the market was already jittery. The extradition process can last a long time, as New Zealanders know all too well with the example of Kim Dotcom, where the process of extradition began in 2012, so this story isn't going to go away in a hurry.

It seems that the market sees bad news everywhere it looks. Oil prices have been hit again as OPEC talks in Vienna are set to end without a formal announcement on production cuts. There has been discussion of production cuts of up to 1 million barrels a day but the details are still being argued, including which countries might be exempt from cuts and Russia's involvement in the decision, and

this leaves investors with little confidence in the market. Brent and WTI crude prices are down 3-4% and are back testing the lows seen at the end of last month. Some scribes believe that Saudi Arabia is holding up the process and are asking whether or not they actually want to do a deal, with Trump breathing down their necks not to cut production.

After a hefty 3.1% fall in Europe's Stoxx 600 index on large volume, the S&P500 was down as much as 2.9%, but has pared that loss to "only" 1½% as we go to press. Financials, Energy and economically-sensitive Materials and Industrials are the worst performing sectors.

On the economic front, US ADP payrolls were slightly weaker than market expectations, while the employment component of the ISM non-manufacturing report fell for a second month, even though the headline index defied expectations of a fall. The four-week average of jobless claims rose to their highest level since April, after last week's tally was higher than expected. The evidence that employment growth in the US has peaked is mounting, ahead of tonight's payrolls report. The US trade deficit continues to expand, which won't please President Trump, although his actions have caused it – the fiscal stimulus supporting domestic demand and import growth, while his tariffs policy sees weaker export growth.

The risk-off mood has seen broadly based falls in global bond yields. Germany's 10 year rate is down 4bps to 0.23%, the weakest close in 18 months. US rates are down 4-5bps across the curve. The 10-year rate got down to as low as 2.825% and currently sits at 2.87%, about 2bps lower from the NZ close. Fed rate hikes continue to get priced out of the curve, with less than a full hike now priced into the Fed Funds curve through 2019. The market has less conviction in a December hike in a couple of weeks, but still sees this as likely.

Weaker risk sentiment sees JPY and CHF at the head of the leaderboard, although with gains of 0.5% against the USD, the moves haven't been particularly large. At the other end of the leaderboard, the NZD and AUD are down about 0.4-0.6% for the day. So NZD/JPY has been one of the bigger movers, down nearly 1% to 77.3. The NZD has sustained the loss seen during the local trading session, but no more, sitting this morning around 0.6870. NZD/AUD continues to drift higher and broke the YTD April high in peaking at 0.9546 earlier this morning, although that saw some selling pressure emerge and the cross is now down to 0.9515. We still like the cross at these levels, even though it is near the top of its familiar

trading range, with relative fundamentals in NZ's favour at present.

Both EUR and GBP are stronger, which sees NZD crosses against those currencies down about 0.7-0.8%. As far as we can tell, there aren't any fresh developments on Brexit. UK PM May is still seeking ways to make the Irish backstop deal more palatable to Tory Brexiteers. Some are calling for a delay to next week's vote in Parliament, while Buzzfeed reports some of May's advisers have recommended she consider a second referendum.

Yesterday, the domestic rates market continued to probe fresh lows, driven by global forces, with longer dated yields across the government and swap curve down 2-3bps. NZ's 2029 government bond has now fallen a chunky 35bps over the past four weeks to 2.45%.

Tonight sees the release of the US employment report with some interest in whether employment growth is

slowing, as indicated by recent jobless claims, and whether wage inflation is barrelling ahead strong enough to keep the risk of Fed rate hikes alive.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	Industrial production (m/m%)	Oct	0.3	0.2	20:00
CH	Foreign reserves (\$b)	Nov	3045	3053	
US	Chg in nonfarm payrolls (k)	Nov	198	250	02:30
US	Unemployment rate (%)	Nov	3.7	3.7	02:30
US	Avg hourly earnings (m/m%)	Nov	0.3	0.2	02:30
US	Avg hourly earnings (y/y%)	Nov	3.1	3.1	02:30
CA	Unemployment rate (%)	Nov	5.8	5.8	02:30
CA	Hrly wages perm. employ. (y/y%)	Nov	1.8	1.9	02:30
US	U. of Mich. consumer sent.	Dec	97	97.5	04:00

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	0.6871	-0.4	0.6857	0.6897	CHF	0.9924	-0.5				Oil (Brent)	59.52	-3.3
AUD	0.7226	-0.6	0.7192	0.7241	SEK	8.994	+0.2				Oil (WTI)	51.19	-3.2
EUR	1.1387	+0.4	1.1321	1.1413	NOK	8.520	+0.2				Gold	1240.8	+0.3
GBP	1.2794	+0.5	1.2700	1.2812	HKD	7.812	-0.0				HRC steel	760.0	-0.7
JPY	112.54	-0.6	112.24	113.16	CNY	6.883	+0.4				CRB	180.8	-1.6
CAD	1.3388	+0.2			SGD	1.369	+0.2				Wheat Chic.	513.8	-0.8
NZD/AUD	0.9509	+0.2			IDR	14,520	+0.8				Sugar	12.66	-0.5
NZD/EUR	0.6034	-0.7			THB	32.86	+0.3				Cotton	80.11	+1.7
NZD/GBP	0.5370	-0.8			KRW	1,121	+0.6				Coffee	105.6	-0.3
NZD/JPY	77.33	-1.0			TWD	30.84	+0.2				WM powder	2750.0	+0.4
NZD/CAD	0.9199	-0.1			PHP	52.80	+0.1				Australian Futures		
NZ TWI	75.11	-0.2									3 year bond	98.085	0.08
											10 year bond	97.56	0.08
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	2.25	2.77	2.91	2.93	USD	2.87	-0.04	NZGB 6 05/15/21	1.76	-0.01	1 year	2.00	0.00
AUD	1.50	1.98	1.93	2.65	AUD	2.45	-0.05	NZGB 5 1/2 04/15/23	1.93	-0.02	2 year	2.06	0.00
NZD	1.75	1.98	2.06	2.79	NZD	2.29	-0.03	NZGB 2 3/4 04/15/25	2.13	-0.02	5 year	2.37	-0.01
EUR	0.00	0.06	-0.14	0.85	GER	0.24	-0.04	NZGB 4 1/2 04/15/27	2.29	-0.03	7 year	2.58	-0.02
GBP	0.75	0.90	1.16	1.46	GBP	1.25	-0.07	NZGB 3 04/20/29	2.45	-0.02	10 year	2.80	-0.03
JPY	-0.07	-0.12	0.00	0.21	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	2.62	-0.03	15 year	3.06	-0.02
CAD	1.75	1.17	2.38	2.61	CAD	2.07	-0.06	NZGB 2 3/4 04/15/37	2.77	-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 06:58

Source: Bloomberg

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