

7 February 2019



Events Round-Up

Tues/Wed:

AU: Retail sales (m/m%), Dec: -0.4 vs. 0.0 exp.

AU: Retail sales ex inflation (q/q%), Q4: 0.1 vs. 0.5 exp.

AU: RBA cash rate target (%): 1.5 vs. 1.5 exp.

UK: Markit services PMI, Jan: 50.1 vs. 51.0 exp.

US: ISM non-manufacturing index, Jan: 56.7 vs. 57.1 exp.

Overnight:

GE: Factory orders (m/m%), Dec: -1.6 vs. 0.3 exp.

NZ: GDT dairy auction avg. winning price: +6.7%

US: Trade balance (\$b), Nov: -49.3 vs. -54.0 exp.

Good Morning

In light trading conditions, US equities are slightly weaker and US rates are slightly lower. In currency markets, AUD is the clear underperformer, following RBA Governor Lowe's speech yesterday afternoon, with some negative spillover effect for the NZD, even as dairy prices continue to surge.

The AUD is down about 1.7% to 0.7130 since the NZ close on Tuesday, before yesterday's Waitangi Day holiday. The currency slumped after RBA Governor Lowe, in a speech yesterday, said that the probabilities of a rate hike or cut "appear to be more evenly balanced", a change in tone from his hither-to view that an increase in the policy rate was more likely than a decrease. The market had been wondering whether Lowe might convey such a tone, but had lost some conviction after the RBA's official statement on Tuesday left its final (neutral) paragraph unchanged, even as it noted downside risks to the global and domestic growth outlooks. With Lowe opening the door to a possible rate cut, the market sees an increased chance of such a move occurring later this year. For November, around 21bps of easing is now priced in. Some will be wondering the impact for the NZ rates market, but over the past year Governor Orr has already conveyed such a tone (rates could go up or down) and the local market prices about 12bps of easing by November.

Rising iron ore prices have offered little support for the AUD, with the monetary policy outlook dominating sentiment for the currency. Iron ore prices rose to as high as \$87.50 on the Singapore exchange, nearly a 2-year high, as the market fears an upcoming shortage following the disaster at a Brazilian mine owned by Vale.

The weak AUD has been somewhat of a drag on the NZD, which has been the second weakest performer over the past 24 hours of the majors, trading down to around 0.6840. A much stronger than expected GDT dairy auction has had little impact. The GDT price index rose by 6.7% and included an 8.4% increase in whole milk powder. We were expecting a flat result after the recent strong recovery and feared a softer result with the possibility of Chinese buyers on holiday. Stronger pricing will add to the chance of a higher dairy payout for the current season.

After Lowe's dovish speech, NZD/AUD zipped up through the 0.96 mark and has hovered around that level since. The cross has now reached our 0.96 target for Q1 (and Q2) although that was in the context of an expected jump up in the trading range to 0.93-0.98, so there is every chance of some further gains being made.

In other news, President Trump's State of the Union speech didn't cause any ripples in the market, with no additional news on the US-China trade war or comfort that another government shutdown can be averted mid-month.

On the economic front, Germany factory orders continued to fall and were again weaker than expected in December, indicating that the economy was perilously close to recession in the second half of last year, with indicators still showing no turnaround in momentum. The US trade deficit in November was much narrower than expected, reversing course after a recent poor run. Imports fell, possibly caused by prior import data being front-loaded due to the tariffs imposed on Chinese imports. The improved data will lead to upwardly revised estimates of Q4 GDP, given a smaller drag from net trade.

That soft German data has done no favour to EUR, while stronger data continues to offer some support to the USD. EUR/USD is edging down towards the lower end of its trading range and sits this morning at 1.1375, while NZD/EUR is down to 0.6015. GBP is tracking sideways around 1.2950 after being hit the previous night after weaker PMI services data.

US rates have a slight downward bias, with the 10-year Treasury rate at 2.68%, down from the 2.72% level at Tuesday's NZ close. This has given some support to the yen, with USD/JPY down to 109.75 and NZD/JPY down 0.9% to 75.1.

Key NZ labour market data are released this morning. After the surprising plunge in the unemployment rate in Q3 to 3.9%, the market expects a rebound to 4.1% – so even an unchanged result would be positive for the NZD

and negative for the rates market, by reducing the chance of easier monetary policy that is currently priced into the rates curve this year. Wage inflation is expected to tick higher.

We might see comments from Fed Chair Powell early afternoon as he hosts a Town Hall meeting. Tonight the Bank of England offers a policy update, but will be sitting on its hands watching the Brexit negotiations from the sidelines.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Unemployment rate (%)	Q4	4.1	3.9	10:45
NZ Employment (q/q%)	Q4	0.3	1.1	10:45
NZ Employment (y/y%)	Q4	2.6	2.8	10:45
NZ LCI Pvt wages ex overtime (q/q%)	Q4	0.6	0.5	10:45
NZ QES avg hrly earnings (q/q%)	Q4	0.8	1.4	10:45
US Fed Chairman Powell to host Town Hall meeting				13:00
AU NAB business confidence	Q4		3	13:30
GE Industrial production (m/m%)	Dec	0.7	-1.9	20:00
UK Bank of England bank rate (%)	Feb	0.75	0.75	01:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)					Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.6842	-0.8	0.6836	0.6876	S&P 500	2,733	-0.2	1.4	Oil (Brent)	62.56	+0.9		
AUD	0.7126	-1.5	0.7122	0.7158	Dow	25,403	-0.0	2.0	Oil (WTI)	53.98	+0.6		
EUR	1.1376	-0.3	1.1374	1.1402	Nasdaq	7,376	-0.3	3.7	Gold	1310.8	-0.3		
GBP	1.2952	+0.1	1.2925	1.2979	Stoxx 50	3,213	-0.1	-5.4	HRC steel	684.0	-0.4		
JPY	109.75	-0.2	109.56	109.84	FTSE	7,173	-0.1	0.4	CRB	180.7	+0.4		
CAD	1.3190	+0.5			DAX	11,325	-0.4	-8.6	Wheat Chic.	528.8	-0.0		
NZD/AUD	0.9601	+0.7			CAC 40	5,079	-0.7	-1.6	Sugar	12.89	+0.6		
NZD/EUR	0.6014	-0.5			Nikkei	20,874	+0.1	-3.6	Cotton	73.94	+0.7		
NZD/GBP	0.5283	-0.8			Shanghai	2,618	+1.3	-24.4	Coffee	105.3	+0.4		
NZD/JPY	75.09	-1.0			ASX 200	6,026	+0.3	2.5	WM powder	2845.0	+0.0		
NZD/CAD	0.9025	-0.3			NZX 50	9,074	+1.1	10.1	Australian Futures				
NZ TWI	74.28	-0.5							3 year bond	98.39	0.13		
									10 year bond	97.87	0.10		
Interest Rates					NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	2.50	2.74	2.66	2.71	USD	2.68	-0.02	NZGB 6 05/15/21	1.72	0.00	1 year	1.91	0.00
AUD	1.50	2.02	1.76	2.38	AUD	2.18	-0.06	NZGB 5 1/2 04/15/23	1.74	0.00	2 year	1.92	0.00
NZD	1.75	1.92	1.92	2.52	NZD	2.04	0.00	NZGB 2 3/4 04/15/25	1.90	0.00	5 year	2.10	0.00
EUR	0.00	0.06	-0.15	0.69	GER	0.16	-0.01	NZGB 4 1/2 04/15/27	2.04	0.00	7 year	2.29	0.00
GBP	0.75	0.92	1.09	1.39	GBP	1.22	-0.02	NZGB 3 04/20/29	2.21	0.00	10 year	2.52	0.00
JPY	-0.06	-0.08	-0.02	0.14	JPY	-0.01	-0.00	NZGB 3 1/2 04/14/33	2.39	0.00	15 year	2.79	0.00
CAD	1.75	1.17	2.21	2.43	CAD	1.91	-0.02	NZGB 2 3/4 04/15/37	2.57	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 07:00

Source: Bloomberg

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