

11 February 2019



Events Round-Up

CA: Hrly wages perm. employ. (y/y%), Jan: 1.8 vs. 1.6 exp.

CA: Net change in employment, Jan: 66.8k vs. 5k exp.

CA: Unemployment rate (%), Jan: 5.8 vs. 5.7 exp.

Good Morning

Global markets traded with a risk-off tone for most of Friday after Trump said he wasn't planning to meet President Xi before US tariffs on China are due to step-up on March 1st. Equity markets fell across Asia and Europe, although a late bounce in US equities left them marginally higher on the day. The NZD was little changed on the day, but NZ rates experienced another sizable fall, with the 10 year NZ government bond yield hitting a record low level.

Sentiment remained negative for much of the Friday trading session, with global equities extending the sell-off from Thursday. Trump told reporters that it was unlikely he would meet President Xi face-to-face before the March 1st deadline date which would see tariffs raised on Chinese imports. While this doesn't preclude an extension of the trade ceasefire if the two sides can make sufficient progress in the talks, and Trump said he would "maybe" meet Xi at later date, the market took the news negatively. Concerns around US-China trade, with the clock ticking on the March 1st deadline date, added to pre-existing market worries around the state of global, and in particular Chinese, growth. US Trade Representative Lighthizer and Treasury Secretary Mnuchin visit China this week for further trade talks. Also not helping sentiment were reports in German media that the US Administration was considering car tariffs, with a variety of options under consideration, including tariff rates of 10% and 25%.

Asian and European equities fell across the board, extending Thursday's declines. The Nikkei fell 2% and the Hang Seng opened almost 2% lower, although it later recovered most of its earlier falls. European equities were down between 0.5% and 1%. The negative sentiment extended into the US trading session, with The S&P500 down almost 1%, before a late rally left it 0.1% higher on the day (and close to flat on the week). There was no obvious trigger for the turn-around in US equities, although some commentators cited comments by San Francisco Fed President Mary Daly, who raised the possibility of using QE as a more regular policy tool, as helping to boost the market. Daly said "you could imagine executing policy with your interest rate as your primary

tool, and the balance sheet as a secondary tool, but one that you would use more readily", although she added that no decision had been made. There was no immediate reaction in bond or currency markets to the Daly comments however. The US 10 year Treasury yield was 3bps lower on the day to 2.63% while the 10 year German bund fell 3bps to just 0.085% and the 10 year Japanese government bond was down 2bps to -0.03%.

Amidst relatively modest currency movements, the USD ended Friday marginally higher. The USD indices were up around 1% on the week, leaving them at their highest levels since early January, although they remain well contained within the broader trading ranges of the past six months. Recent economic data continues to paint a picture of relative US economic strength compared to other G10 currencies, even as the overall pace of US growth is slowing.

The top performing currency on the day was the Canadian dollar (+0.3%), which was boosted by a much larger than expected increase in employment in January. The Canadian unemployment rate ticked up, due to an increase in the participation rate, but wage growth was also higher than expected. The safe haven Japanese yen and Swiss franc were also slightly higher against the USD on the day, amidst more cautious risk sentiment.

The AUD came under pressure immediately after the release of the RBA's Statement of Monetary Policy (SoMP). Despite Governor Lowe foreshadowing the downgrades to growth and inflation at his speech earlier in the week, the AUD fell from around 0.7090 before the release to 0.7060. The Statement noted that the probability of cutting or hiking was "more evenly balanced than previously", although in the Outlook section, six of the seven risks mentioned were to the downside. There was no sense of policy change urgency, including no suggestion of a cut in the near future. The AUD retraced those losses over the remainder of the trading session to close the week at 0.7090, with a further surge in iron ore prices (to \$94 during the Asian trading session – the highest level in 4½ years) assisting its recovery.

The NZD traded a relatively tight range on Friday, consolidating after the sharp fall in the wake of the disappointing NZ employment report on Thursday. It closed the week at 0.6745. Despite limited moves in the NZD, NZ rates continued to move sharply lower on Friday. NZ swap rates were 3 to 4.5bps lower across the curve, while the 10 year generic NZ government bond yield reached a record low of 2.1%. The decline in Australian

rates on Friday after the SoMP and growing OCR rate cut expectations (the market almost fully-prices an OCR cut by the end of the year) fuelled the moves in NZ rates. Incredibly, the 5 year swap rate, at 1.9475%, is now trading a mere 4bps above the 90 day bank bill rate. The RBNZ MPS on Wednesday is the key event risk for both the NZ rates and currency markets, with the market priced for dovish messaging from the Bank.

Besides the RBNZ MPS, the week ahead sees the release of US CPI and retail sales while in Australia the NAB business survey is released. Australian business conditions fell sharply in December, pointing to a subdued growth outlook, and the survey will be closely watched for any potential bounce-back in January. Another weak reading would add to RBA rate cut expectations, and probably OCR rate expectations too. In politics, the US government is heading for another shutdown on the 15th unless a funding deal can be agreed beforehand (or President Trump uses his emergency powers). Talks between Republicans and Democrats to avert a shutdown broke down over the weekend according to Bloomberg.

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Coming Up

	Period	Cons.	Prev.	NZT
UK GDP (q/q%)	Q4	0.3	0.6	22:30
UK GDP (y/y%)	Q4	1.4	1.5	22:30
UK Trade balance (£b)	Dec	3.0	2.9	22:30
UK Industrial production (m/m%)	Dec	0.3	-0.4	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	0.6740	-0.1	0.6742	0.6766	CHF	1.0005	-0.2		S&P 500	2,708	+0.1	3.4	Oil (Brent)	62.10	+0.8												
AUD	0.7088	-0.2	0.7071	0.7101	SEK	9.274	+0.1		Dow	25,106	-0.3	3.8	Oil (WTI)	52.72	+0.2												
EUR	1.1323	-0.2	1.1321	1.1351	NOK	8.638	+0.5		Nasdaq	7,298	+0.1	6.2	Gold	1318.5	+0.3												
GBP	1.2945	-0.1	1.2921	1.2976	HKD	7.847	-0.0		Stoxx 50	3,136	-0.5	-5.7	HRC steel	709.0	-1.5												
JPY	109.73	-0.1	109.67	109.90	CNY	6.745	+0.0		FTSE	7,071	-0.3	-0.3	CRB	178.0	-0.0												
CAD	1.3278	-0.2			SGD	1.356	-0.0		DAX	10,907	-1.0	-9.9	Wheat Chic.	519.5	+0.5												
NZD/AUD	0.9509	+0.1			IDR	13,955	-0.1		CAC 40	4,962	-1.3	-2.3	Sugar	12.71	-0.2												
NZD/EUR	0.5952	+0.0			THB	31.48	+0.8		Nikkei	20,333	-2.0	-4.9	Cotton	72.55	-0.4												
NZD/GBP	0.5207	+0.0			KRW	1,124	-0.0		Shanghai	2,618	+1.3	-24.4	Coffee	105.6	-1.6												
NZD/JPY	73.96	-0.2			TWD	30.82	+0.0		ASX 200	6,071	-0.3	4.0	WM powder	3150.0	+0.0												
NZD/CAD	0.8949	-0.3			PHP	52.07	-0.3		NZX 50	9,177	+0.5	13.4	Australian Futures														
NZ TWI	73.46	-0.1											3 year bond	98.42	0.02												
													10 year bond	97.93	0.02												
Interest Rates							NZ Government Bonds				NZ Swap Yields																
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last		Last															
	Cash	3Mth	2 Yr	10 Yr	USD	AUD	NZD	GER	GBP	JPY	CAD	NZGB 6 05/15/21	NZGB 5 1/2 04/15/23	NZGB 2 3/4 04/15/25	NZGB 4 1/2 04/15/27	NZGB 3 04/20/29	NZGB 3 1/2 04/14/33	NZGB 2 3/4 04/15/37	1 year	2 year	5 year	7 year	10 year	15 year			
USD	2.50	2.70	2.61	2.66	2.63	-0.02						1.60	-0.05	1.61	-0.05	1.77	-0.05	1.92	-0.04	2.10	-0.04	2.28	-0.04	2.46	-0.05	1.83	-0.03
AUD	1.50	2.01	1.73	2.33	2.10	-0.05						1.60	-0.05	1.77	-0.05	1.92	-0.04	2.10	-0.04	2.28	-0.04	2.46	-0.05	1.79	-0.04		
NZD	1.75	1.91	1.80	2.40	1.92	-0.04						1.60	-0.05	1.77	-0.05	1.92	-0.04	2.10	-0.04	2.28	-0.04	2.46	-0.05	1.95	-0.04		
EUR	0.00	0.06	-0.16	0.63	0.09	-0.03						1.60	-0.05	1.77	-0.05	1.92	-0.04	2.10	-0.04	2.28	-0.04	2.46	-0.05	2.15	-0.04		
GBP	0.75	0.88	1.04	1.34	1.15	-0.03						1.60	-0.05	1.77	-0.05	1.92	-0.04	2.10	-0.04	2.28	-0.04	2.46	-0.05	2.40	-0.03		
JPY	-0.05	-0.09	-0.02	0.14	-0.03	-0.02						1.60	-0.05	1.77	-0.05	1.92	-0.04	2.10	-0.04	2.28	-0.04	2.46	-0.05	2.67	-0.03		
CAD	1.75	1.17	2.16	2.38	1.88	0.00						1.60	-0.05	1.77	-0.05	1.92	-0.04	2.10	-0.04	2.28	-0.04	2.46	-0.05				

* 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 New York Close

Source: Bloomberg

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