

12 December 2018



Events Round-Up

- NZ: ANZ Truckometer - heavy (m/m%), Nov: -1.9 vs. 4.6 prev.
- NZ: Retail card spending (m/m%), Nov: -0.4 vs. 0.3 prev.
- AU: NAB business conditions, Nov: 11 vs. 12 prev.
- AU: House price index (q/q%), Q3: -1.5 vs. -1.6 exp.
- UK: Unemployment rate, Oct: 4.1 vs. 4.1 exp.
- UK: Employment change (k), Oct: 79k vs. 25 exp.
- UK: Average weekly earnings ex-bonus (y/y%), Oct: 3.3 vs. 3.2 exp.
- GE: ZEW survey expectations, Dec: -17.5 vs. -25 exp.
- US: NFIB small business optimism, Nov: 104.8 vs. 107 exp.
- US: PPI ex food and energy (y/y%), Nov: 2.7 vs. 2.5 exp.

Good Morning

Market sentiment has improved somewhat over the past 24 hours following news that the US and China have had high-level dialogue on trade and reports that China would cut tariffs on imported US cars. Confidence remains fragile however and US equities have already pared most of their earlier gains. The GBP remains weak amidst speculation of a leadership challenge to PM May. The NZD is unchanged from this time yesterday, but higher on most of the crosses.

Equity markets remain volatile amid US-China trade headlines. Yesterday afternoon, the Chinese Ministry of Commerce said that US Treasury Secretary Mnuchin and Chinese Vice Premier He had spoken on trade to "*push forward with next steps in a timetable and roadmap*". There have also been reports that China's cabinet was reviewing a proposal to cut the tariff on imported US cars from 40% to 15%, as Trump had claimed after his G20 meeting with President Xi. Trump seemed to foreshadow such an announcement, tweeting "*Very productive conversations going on with China! Watch for some important announcements!*" The S&P500 initially rose 1.4% on these reports, led unsurprisingly by the auto sector (+2% on the day). But the S&P500 has since reversed these earlier gains, partly due to President Trump's threat to shut down the government if his demand for a border wall with Mexico is not met. Market sentiment remains fragile ahead of year-end.

US rates are also close to unchanged from yesterday. The 10 year Treasury yield initially rose to 2.89%, but it has since reversed course and is now at 2.85%, down 1bp on the day. The 2s10s yield curve has flattened slightly to 11bps. In economic data overnight, the NFIB small business survey fell, in line with the recent decline in the equity market, but it remains at very strong levels overall. US core PPI was stronger than expected, although it should decline from here given the fall in oil prices. US macro data continues to paint a far more healthy picture of the economy than the signals implied by the market.

The GBP has remained under pressure over the past 24 hours, following conflicting reports that there would be an imminent leadership challenge to PM May. Sky News reported that the European Research Group (a Brexit-supporting group of Conservative MPs) believed it had reached the hurdle for a leadership challenge (48 MPs submitting letters). According to Sky, the Chairman of the 1922 Committee of backbenchers, Graham Brady, would wait until May is back in the country before making the announcement. Other media outlets, including the BBC and Sun, however do not believe that threshold has been met yet. The GBP fell below 1.25 on the Sky News reports, with the market concerned that May could be replaced by a Brexit-supporter, increasing the chance of a no-deal scenario. The GBP is down 0.2% on the day. May is currently touring Europe, hoping to win some "*legally-binding*" assurances on the Irish backdrop in the hope of appeasing MPs, and winning a parliamentary vote. The news on that front doesn't look encouraging, with EC President Juncker saying the EU would only offer "*clarifications*", but that the full legal text was not up for negotiation. The permutations from here are very wide, and the GBP is likely to remain volatile for some time.

The weakness in the GBP has again spilled over into the EUR, which is down 0.3%. The violent protests in France over the weekend, which has seen the Banque de France cut its Q4 GDP forecast from 0.4% to 0.2% has probably not helped sentiment towards the EUR either. Conversely, the USD indices have pushed higher again, with both the DXY and BBDXY nearing 18 month highs (+0.2% on the day).

The NZD is marginally higher than point yesterday, and has outperformed, alongside the AUD, amid the more positive news on US-China trade talks. The NZD made a high of 0.6912 in the New York morning when US equities were at their highs, but it has since tracked the GBP and EUR lower, and currently sits at 0.6875. NZD/GBP has

reached its highest level since September 2017, just below 0.55, while NZD/EUR has increased to 0.6075, near its highest level since October 2017.

NZ swap rates moved slightly lower again yesterday, led by the 5 year point. Government bond yields, in contrast, increased ahead of the release of the HYEPU on Thursday. NZ electronic card transactions (ECT) data released yesterday was weaker than market expectations, although primarily due to lower spending on petrol. The core measure of retail ECT spending expanded a healthy 0.5% in November. Ahead this morning, RBNZ Governor Orr is testifying to Parliament's Finance and Expenditure

Committee, on the Bank's recently published Annual Report.

nick.smyth@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	RBNZ's Orr at Parliament Committee on Annual Report				08:15
EC	Industrial Production (y/y%)	Oct	0.7	0.9	23:00
US	CPI (y/y%)	Nov	2.2	2.5	02:30
US	CPI Ex Food and Energy (y/y%)	Nov	2.2	2.1	02:30

Source: Bloomberg, BNZ.

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day		
NZD	0.6879	+0.1	0.6862	0.6912	CHF	0.9932	+0.3	S&P 500	2,640	+0.1	-0.8	Oil (Brent)	60.46	+0.8
AUD	0.7204	+0.2	0.7191	0.7225	SEK	9.081	-0.2	Dow	24,327	-0.3	-0.2	Oil (WTI)	51.72	+1.4
EUR	1.1324	-0.3	1.1306	1.1400	NOK	8.573	+0.1	Nasdaq	7,036	+0.3	2.3	Gold	1249.8	+0.0
GBP	1.2517	-0.4	1.2492	1.2639	HKD	7.817	+0.0	Stoxx 50	3,055	+1.3	-14.7	HRC steel	739.0	-0.9
JPY	113.27	-0.1	113.01	113.47	CNY	6.900	-0.2	FTSE	6,807	+1.3	-8.7	CRB	181.8	+0.1
CAD	1.3404	+0.0			SGD	1.374	+0.0	DAX	10,781	+1.5	-17.9	Wheat Chic.	527.5	-0.8
NZD/AUD	0.9549	-0.1			IDR	14,608	+0.4	CAC 40	4,806	+1.1	-10.8	Sugar	12.80	+0.6
NZD/EUR	0.6075	+0.4			THB	32.84	-0.2	Nikkei	21,148	-0.3	-7.5	Cotton	79.91	+0.0
NZD/GBP	0.5496	+0.5			KRW	1,130	+0.3	Shanghai	2,594	+0.4	-20.9	Coffee	102.6	-2.5
NZD/JPY	77.92	+0.1			TWD	30.89	+0.1	ASX 200	5,576	+0.4	-7.3	WM powder	2820.0	-0.2
NZD/CAD	0.9221	+0.2			PHP	52.81	+0.0	NZX 50	8,671	+0.1	4.7	Australian Futures		
NZ TWI	75.50	+0.1										3 year bond	98.03	-0.03
												10 year bond	97.56	0.01
Interest Rates							NZ Government Bonds				NZ Swap Yields			
Rates		Swap Yields		Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day	Last		Last				
USD	2.25	2.78	2.88	2.90	USD	2.86	-0.00	NZGB 6 05/15/21	1.77	0.01	1 year	1.99	-0.00	
AUD	1.50	1.99	1.96	2.64	AUD	2.46	0.01	NZGB 5 1/2 04/15/23	1.93	0.01	2 year	2.04	-0.01	
NZD	1.75	1.98	2.03	2.75	NZD	2.29	0.02	NZGB 2 3/4 04/15/25	2.13	0.02	5 year	2.32	-0.01	
EUR	0.00	0.06	-0.14	0.86	GER	0.23	-0.01	NZGB 4 1/2 04/15/27	2.29	0.02	7 year	2.52	-0.01	
GBP	0.75	0.91	1.11	1.39	GBP	1.19	-0.01	NZGB 3 04/20/29	2.45	0.02	10 year	2.75	-0.00	
JPY	-0.07	-0.11	0.00	0.20	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	2.63	0.02	15 year	3.01	-0.01	
CAD	1.75	1.17	2.41	2.57	CAD	2.06	0.00	NZGB 2 3/4 04/15/37	2.78	0.03				

* 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 07:09

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rate Strategist
+64 4 924 7653

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109

Gavin Friend

Senior Market Strategist
+44 20 7710 1588

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Alex Stanley

Senior Interest Rate Strategist
+61 2 9237 8154

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