

13 November 2018



Events Round-Up

NZ: Card spending retail (m/m%), Oct: 0.1 vs. 0.6 exp.

Good Morning

It's Veteran's day holiday in the US, but US equity markets have remained under downward pressure to start the week, especially the tech sector. Brexit remains in focus too. Speculation of more UK cabinet resignations is increasing concern that Theresa May won't be able to pass a Brexit deal through parliament, and this has weighed again on the GBP and EUR. On the flip side, the USD has extended its recent gains, with the various USD indices making fresh 18 month highs. The NZD has held up reasonably well, and is down only marginally against the USD overnight.

US equity markets have come under renewed downward pressure overnight, with chunky falls across the major benchmark indices. The S&P500 is down 1.5% as we write, while the NASDAQ has again led the way lower, down 2.3%. Apple shares are down more than 4% on the day, and over 16% from the recent peak, after some of its suppliers forecast slowing demand (recall Apple said at its last earnings report that it would no longer supply iPhone unit sales, which some analysts interpreted as an attempt to move attention away from slowing iPhone demand). And a WSJ report that the Trump administration was planning to use export controls, indictments and other tools in retaliation for alleged Chinese intellectual property theft didn't help sentiment either. The US bond market was closed, although Treasury bond futures indicated a 2bp fall in the 10 year rate to around 3.16%.

Renewed concerns about Brexit have added to the cautious mood in markets. Over the weekend, the Sunday Times reported that up to four remain-supporting ministers were considering resigning (following the deal of Jo Johnson), in protest at the deal being negotiated with the EU. The parliamentary math is looking increasingly difficult for Theresa May to pass any prospective deal, which increases the likelihood of either new elections or, possibly, even a second referendum.

There have again been conflicting reports on whether UK and EU negotiators are close to agreeing a deal to present to the UK cabinet. The FT reported that the main aspects of a draft text were ready to present to the UK cabinet on Tuesday. However, the Guardian reported that the UK had

all but given up on a special EU Summit in late November, as the two sides remain deadlocked on several key issues (most notably the Irish border). EU and UK negotiators need to agree a deal by the end of Wednesday, for sign-off by the UK cabinet, to allow time for a November EU Summit.

The GBP has come under downward pressure over the past 24 hours, as markets become more agitated about the risks of a No-deal or a Corbyn-led Labour government. The GBP was down 0.9% on the day to 1.2850, the weakest of the G10 currencies. The weakness in the GBP has spilled over into the EUR, which continues to trade as a 'low-beta' GBP. The EUR broke through support at 1.13 and now trades at 1.1250, its lowest level since June 2017. Italian concerns have also weighed on the EUR. Italy needs to present a revised Budget to the European Commission by the end of today, although Deputy PM Salvini warned that "*the budget doesn't change because the EU sends us letters.*" The European Commission could, in theory, impose financial sanctions on Italy if it believes the budget breaches the fiscal rules of the bloc.

The flip-side of the weakness in the GBP and EUR has been USD strength. The major USD indices are up between 0.4% and 0.6%, and have made 18 month highs.

The NZD has held up very well in spite of the USD's renewed strength and further falls in equity markets. The NZD is down only marginally from Friday night's close, and currently trades at 0.6730. The resilience of the NZD is probably explained by further unwinding of NZD short positions as the market continues to recalibrate its RBNZ expectations in the wake of the exceptionally strong NZ employment report. The NZD has made gains on most of the key crosses, with the NZD/AUD trading up to 0.9350, its highest level since June. NZD/GBP and NZD/EUR are also at their highest levels since June.

NZ swap rates nudged up slightly yesterday, despite the 6bp fall in the 10 year Treasury yield on Friday night. The 2 year swap rate closed at 2.1975%, near its highest level since June. Like with the FX market, there has been continued position unwinding in swaps, as investors close out received positions. Despite the 20bp increase in the 2 year swap rate over the past fortnight, it's worth pointing out that there have been further declines in some NZ fixed mortgage rates, with BNZ announcing a 30bp reduction to its 2 year 'Classic' rates yesterday.

Finally, oil prices rose on Monday in response to Saudi

Arabia's announcement over the weekend that it would reduce its oil production by 500,000 barrels per day next month. Brent Crude was up 1.6% and West Texas Intermediate was up 1.2%, although prices remain close to 20% below the recent peaks in early October. Overnight, Saudi Arabia's Energy minister said OPEC+ may need to cut production by about 1 million barrels per day from October levels in order to balance the market in 2019.

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Coming Up

		Period	Cons.	Prev.	NZT
US	Fed's Daly Speaks on the Economic Outlook				08:30
NZ	REINZ House Sales YoY	Oct		-3	09:00
NZ	Food Prices MoM	Oct		-0.1	10:45
AU	NAB Business Conditions	Oct		15	13:30
UK	ILO Unemployment Rate	Sep	4	4	22:30
UK	Employment Change (3m/3m%)	Sep	25	-5	22:30
GE	ZEW Survey Expectations	Nov	-26	-24.7	23:00
US	NFIB Small Business Optimism	Oct	108	107.9	00:00

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Major Indices				Price						
	Last	% Day	Low	High	Other FX	Last	% Day	% Year		Last	Net Day				
NZD	0.6729	-0.1	0.6706	0.6757	CHF	1.0091	+0.3		S&P 500	2,744	-1.3	6.2	Oil (Brent)	71.00	+1.2
AUD	0.7195	-0.4	0.7188	0.7232	SEK	9.130	+0.5		Dow	25,534	-1.8	9.0	Oil (WTI)	60.81	+1.0
EUR	1.1244	-0.8	1.1240	1.1326	NOK	8.483	+0.6		Nasdaq	7,243	-2.2	7.3	Gold	1203.2	-0.4
GBP	1.2848	-1.0	1.2828	1.2938	HKD	7.835	+0.0		Stoxx 50	3,194	-1.1	-11.1	HRC steel	804.0	-0.6
JPY	113.77	-0.1	113.66	114.21	CNY	6.964	+0.1		FTSE	7,053	-0.7	-5.1	CRB	188.7	+0.1
CAD	1.3210	-0.0			SGD	1.383	+0.3		DAX	11,325	-1.8	-13.7	Wheat Chic.	525.0	+2.5
NZD/AUD	0.9352	+0.3			IDR	14,820	+1.0		CAC 40	5,059	-1.6	-6.0	Sugar	12.83	+0.8
NZD/EUR	0.5985	+0.8			THB	33.15	+0.3		Nikkei	22,270	+0.1	-0.5	Cotton	76.66	-1.8
NZD/GBP	0.5237	+0.8			KRW	1,134	+0.5		Shanghai	2,631	+1.2	-23.7	Coffee	113.9	-3.1
NZD/JPY	76.56	-0.2			TWD	30.89	+0.4		ASX 200	5,941	+0.3	-1.3	WM powder	2680.0	+0.0
NZD/CAD	0.8889	-0.2			PHP	53.21	+0.3		NZX 50	8,957	+0.3	12.3	Australian Futures		
NZ TWI	74.11	+0.2											3 year bond	97.83	0.00
													10 year bond	97.27	0.01
Interest Rates					NZ Government Bonds				NZ Swap Yields						
	Swap Yields				Benchmark 10 Yr Bonds		Last			Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	2.25	2.62	3.11	3.24	USD	3.18	0.00	NZGB 6 05/15/21	1.95	0.00	1 year	2.05	0.00		
AUD	1.50	1.94	2.08	2.90	AUD	2.74	-0.02	NZGB 5 1/2 04/15/23	2.19	0.00	2 year	2.20	0.00		
NZD	1.75	1.99	2.20	3.10	NZD	2.64	0.00	NZGB 2 3/4 04/15/25	2.44	0.00	5 year	2.64	0.01		
EUR	0.00	0.06	-0.12	0.96	GER	0.40	-0.01	NZGB 4 1/2 04/15/27	2.64	0.00	7 year	2.86	0.01		
GBP	0.75	0.87	1.18	1.63	GBP	1.45	-0.04	NZGB 3 04/20/29	2.79	0.00	10 year	3.11	0.00		
JPY	-0.07	-0.10	0.04	0.31	JPY	0.12	-0.00	NZGB 3 1/2 04/14/33	2.98	0.01	15 year	3.36	0.00		
CAD	1.75	1.17	2.68	2.92	CAD	2.51	-0.04	NZGB 2 3/4 04/15/37	3.11	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 06:53

Source: Bloomberg

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