

14 December 2018



Events Round-Up

NZ: Food prices (m/m%), Nov: -0.6 vs. -0.6 exp.

EC: Deposit rate (%), Dec: -0.4 vs. -0.4 exp.

US: Initial jobless claims (k), Dec: 206 vs. 227 exp.

Good Morning

It has been a relatively quiet night in markets overnight, with no fresh developments on the US-China trade front and no major economic data released. The ECB said it would end its QE programme, as planned, at the end of this month, although Draghi alluded to growing downside risks to growth; the EUR is slightly lower as a result. The NZD has been relatively stable.

US equities are down modestly overnight, but remain contained within recent trading ranges. There haven't been any major developments in the US-China trade talks, except for reports that China had restarted its purchases of US soybeans, as promised. Brexit has slipped back off the headlines after Theresa May won a confidence vote in her leadership. And investor activity has started to wind down ahead of the Christmas period. The S&P500 is down modestly on the day (-0.3%) while the NASDAQ has fallen a bit more (-0.7%). The S&P500 is currently down 1% for this year, which would be the first time since 2011 that it has posted a negative return over the calendar year (excluding dividends).

There were no major surprises at the ECB meeting overnight. The ECB confirmed that its QE programme would come to an end after this month, as planned. While the ECB will stop adding to its stock of bond holdings via QE purchases, it announced that it will continue to reinvest the proceeds of maturing bonds for "an extended period of time" after rate rises commence. That means the ECB will remain active in the bond market for some time yet, and help to keep European bond yields at relatively low levels. The ECB also reiterated its forward guidance for the policy rate, saying rates would remain at current levels "at least through the summer of 2019." With European core inflation still stuck around 1%, well below target, the market doesn't price the first (10bp) rate hike until April 2020.

The EUR is down slightly on the day (-0.1% to 1.1360), with the market seizing on ECB President Draghi's comment that the risks to the growth outlook were "moving to the downside". Draghi cited geopolitical

uncertainty, the threat of protectionism and emerging market and financial market volatility as factors that could hurt growth. German bund yields were similarly little changed.

The only economic data released overnight was the weekly initial jobless claims in the US, which declined sharply from 233k to 206k. Jobless claims had been ticking higher over recent months, leading some commentators to suggest that this was a sign that the US labour market was softening. But the large fall overnight has pushed jobless claims close to record lows again. While there can be issues with seasonal adjustment at this time of year, the data seemed to reinforce the notion that the US labour market is still very tight. US rates are little changed from yesterday, with the retail sales release tonight likely to generate far more market interest. The US 10 year Treasury yield is 2.90%.

The NZD has been contained within a narrow 0.6850 - 0.6880 range overnight. It is little changed from this time yesterday at 0.6860. The NZD/AUD cross has managed to hold below 0.95, after moving sharply lower on Wednesday night. The NZD has been the third best performing of the G10 currencies in 2018. All the G10 currencies are lower against the USD this year, but the NZD's fall (-3.3%) has bettered the EUR (-5.4%), GBP (-6.6%) and AUD (-7.4%). In the domestic rates market, NZ swaps moved 2-3bps higher across the curve yesterday, tracking global moves the previous session.

Yesterday's Half-year Economic and Fiscal Update (HYEFU) was very similar to the May Budget and showed the government to be in a very strong fiscal position (especially so in a global context). The Treasury revised down its growth forecasts from the time of the Budget, leading to a lower core operating surplus expectation this fiscal year (0.6% of GDP vs. 1.2% at the time of the Budget). But the shortfall is gradually made up for over the course of the following few years. By June 2022, the government's net debt ratio is forecast to fall to 19.0%, below the 20% "target". The bond programme was kept unchanged for each of the next four fiscal years. There was, predictably, little market reaction.

There is plenty to look out for in the session ahead including Chinese activity data, the European PMIs and US retail sales. The major event offshore the market is focused on is the FOMC meeting next week.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Manufacturing PMI	Nov		53.5	10:30
JN Tankan Large Mfg Index	4Q	18	19	12:50
CH Retail Sales (y/y%)	Nov	8.8	8.6	15:00
CH Industrial Production (y/y%)	Nov	5.9	5.9	15:00
CH Fixed Assets Ex Rural YTD (y/y%)	Nov	5.8	5.7	15:00
GE Germany Manufacturing PMI	Dec P	51.7	51.8	21:30
GE Germany Services PMI	Dec P	53.5	53.3	21:30
EC Eurozone Manufacturing PMI	Dec P	51.8	51.8	22:00
EC Eurozone Services PMI	Dec P	53.4	53.4	21:30
US Retail Sales Ex Auto and Gas (m/m%)	Nov	0.4	0.3	02:30
US Retail Sales Control Group (m/m%)	Nov	0.5	0.3	02:30
US Industrial Production (m/m%)	Nov	0.3	0.1	03:15
US US Manufacturing PMI	Dec P	55	55.3	03:45

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	0.6860	+0.0	0.6848	0.6880	CHF	0.9941	+0.1	S&P 500	2,647	-0.1	-0.6	Oil (Brent)	60.75	+1.0
AUD	0.7229	+0.1	0.7216	0.7247	SEK	9.063	-0.3	Dow	24,560	+0.0	-0.1	Oil (WTI)	51.91	+1.5
EUR	1.1355	-0.1	1.1331	1.1393	NOK	8.566	-0.1	Nasdaq	7,063	-0.6	2.7	Gold	1247.3	-0.2
GBP	1.2630	+0.0	1.2610	1.2687	HKD	7.813	+0.0	Stoxx 50	3,112	+0.1	-13.1	HRC steel	742.0	+0.4
JPY	113.63	+0.3	113.37	113.71	CNY	6.882	+0.0	FTSE	6,878	-0.0	-8.3	CRB	182.4	+0.7
CAD	1.3356	+0.0			SGD	1.371	-0.1	DAX	10,925	-0.0	-16.8	Wheat Chic.	539.3	+1.3
NZD/AUD	0.9490	-0.1			IDR	14,497	-0.7	CAC 40	4,897	-0.3	-9.3	Sugar	12.76	+0.2
NZD/EUR	0.6041	+0.1			THB	32.76	-0.0	Nikkei	21,816	+1.0	-3.9	Cotton	79.26	-0.9
NZD/GBP	0.5432	+0.0			KRW	1,123	-0.5	Shanghai	2,634	+1.2	-20.0	Coffee	103.6	+0.5
NZD/JPY	77.95	+0.4			TWD	30.84	-0.1	ASX 200	5,662	+0.1	-5.8	WM powder	2825.0	+0.2
NZD/CAD	0.9162	+0.1			PHP	52.68	-0.0	NZX 50	8,793	+0.6	5.6	Australian Futures		
NZ TWI	75.12	+0.0										3 year bond	98	-0.03
												10 year bond	97.52	-0.01
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	2.25	2.78	2.90	2.95	USD	2.91	-0.00	NZGB 6 05/15/21	1.80	0.03	1 year	2.02	0.01	
AUD	1.50	2.00	1.98	2.69	AUD	2.47	0.02	NZGB 5 1/2 04/15/23	1.97	0.02	2 year	2.08	0.02	
NZD	1.75	1.98	2.07	2.78	NZD	2.35	0.02	NZGB 2 3/4 04/15/25	2.17	0.02	5 year	2.36	0.03	
EUR	0.00	0.06	-0.14	0.88	GER	0.29	0.01	NZGB 4 1/2 04/15/27	2.35	0.02	7 year	2.56	0.03	
GBP	0.75	0.90	1.18	1.50	GBP	1.29	0.01	NZGB 3 04/20/29	2.50	0.02	10 year	2.78	0.03	
JPY	-0.07	-0.12	0.01	0.22	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	2.69	0.03	15 year	3.04	0.03	
CAD	1.75	1.17	2.44	2.63	CAD	2.14	0.01	NZGB 2 3/4 04/15/37	2.85	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 06:53

Source: Bloomberg

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