

14 November 2018



Events Round-Up

NZ: Food prices (m/m%), Oct: -0.6 vs. -0.1 prev.
AU: NAB Business conditions, Oct: 12 vs. 14 prev.
UK: Unemployment rate (%), Sep: 4.1 vs. 4.0 exp.
UK: Earnings ex bonuses (y/y%), Q3: 3.2 vs. 3.1 exp.
GE: ZEW survey expectations, Nov: -24.1 vs. -26.0 exp.
US: NFIB small business opt., Oct : 107.4 vs. 108.0 exp.

Good Morning

More optimism on US-China trade talks and a Brexit deal have supported risk currencies like the NZD, while GBP has been the top performer. US equities are stronger, while US Treasury yields haven't responded to the better risk backdrop.

GBP is currently up 1.2% to 1.30 and almost got to 1.3050, unwinding the losses seen earlier this week on some positive Brexit news. The UK and EU have provisionally agreed the text on the Brexit withdrawal treaty. The FT reported that while a text of the agreement is settled, negotiations could continue over coming days if political objections are raised by London or EU member states. The UK Cabinet will meet tonight NZ time to consider the agreement and earlier the FT had reported that May wouldn't call for a meeting unless she thought she could win Cabinet support. Earlier today she had been meeting Cabinet members one-by-one. GBP could easily push a lot higher if the agreement can get wrapped up, and easily reverse course again if this all gets dragged out into December and beyond.

In economic data, while the UK unemployment rate ticked higher, UK wages growth was slightly stronger than expected, rising to its highest level in nearly a decade, adding to the case for further rate hikes by the Bank of England once the risk of Brexit negotiations has passed. The UK 10-year rate is up 7bps to 1.52%.

The stronger GBP has spilled over into a stronger EUR, up 0.5% to 1.1275. Holding back EUR performance of late has been the disagreement over Italy's budget with the EU. Later this morning NZ time the Italian Cabinet will meet to discuss its next move on the Budget so watch this space. The stronger GBP and EUR, alongside better risk sentiment, sees the various USD indices down about 0.2-0.3% after earlier reaching a fresh high for the year.

The other key market driver has been a more positive vibe

on US-China trade talks. The two countries are back talking with each other, with Trump's Economic Advisor Kudlow confirming that contact has been resumed "at all levels". Yesterday there were reports that China's Vice Premier Liu was expected to visit Washington shortly, while he had also spoken to Treasury Secretary Mnuchin at the end of last week. Talks are taking place ahead of the Trump-Xi meeting at the G20 summit that begins at the end of the month.

Positive trade talk news has been a supportive factor for the NZD and AUD. The NZD has trended higher throughout the day and came off a high of 0.6768 earlier this morning, up 0.7% for the day, albeit most of that gain was made during the local trading session. AUD hasn't performed quite as well but is up through 0.72, while NZD/AUD is meeting some resistance around 0.9375.

Amongst the commodity currencies, CAD has underperformed against a backdrop of a further slump in oil prices, with WTI and Brent crude both down over 4%. Brent is trading at \$67, now down over 22% since peaking in early October. In an update, OPEC sees the market currently in balance but sees demand falling by faster than expected next year against a backdrop of higher supply growth for non-OPEC countries.

In the bond market, US Treasury yields have traded a tight 3bps range between 3.1450-3.1750% for the day, despite better risk appetite and against a backdrop of higher UK and German rates, on the more positive Brexit news. Yesterday there was a mild downside bias to NZ rates at the longer end of the curve. The 2-year swap rate was steady at 2.20% while the 10-year rate was down 2bps to 3.09%.

The economic calendar is heavy over the next 24 hours. Locally, REINZ housing market data are due this morning, while during the local session, Australian wages, Japan GDP and China activity data are released. Tonight sees the release of European GDP, UK and US CPI data.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	REINZ house sales (y/y%)	Oct		-3	09:00
JN	GDP (q/q%)	Q3	-0.3	0.7	12:50
AU	Wage price index, q/q%	Q3	0.6	0.6	13:30
CH	Retail sales (y/y%)	Oct	9.2	9.2	15:00
CH	Industrial production (y/y%)	Oct	5.8	5.8	15:00
CH	Fixed assets invest. (y/y%)	Oct	5.5	5.4	15:00
GE	GDP (q/q%)	Q3	-0.1	0.5	20:00
UK	CPI core (y/y%)	Oct	1.9	1.9	22:30
EC	Industrial production (m/m%)	Sep	-0.4	1	23:00
EC	GDP (q/q%)	Q3	0.2	0.2	23:00
EC	Employment (q/q%)	Q3		0.4	23:00
US	CPI ex food and energy (y/y%)	Oct	2.2	2.2	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	% Year		Last	Net Day						
NZD	0.6754	+0.7	0.6734	0.6768	CHF	1.0091	-0.2		S&P 500	2,735	+0.3	5.8	Oil (Brent)	67.05	-4.4					
AUD	0.7208	+0.5	0.7189	0.7224	SEK	9.070	-0.9		Dow	25,364	-0.1	8.2	Oil (WTI)	57.20	-4.6					
EUR	1.1278	+0.5	1.1222	1.1294	NOK	8.490	-0.3		Nasdaq	7,241	+0.6	7.2	Gold	1202.0	-0.1					
GBP	1.2987	+1.1	1.2862	1.3047	HKD	7.829	-0.1		Stoxx 50	3,225	+1.0	-9.8	HRC steel	812.0	+0.0					
JPY	113.96	+0.1	113.77	114.15	CNY	6.956	-0.1		FTSE	7,054	+0.0	-4.9	CRB	185.5	-1.3					
CAD	1.3243	-0.0			SGD	1.381	-0.2		DAX	11,472	+1.3	-12.3	Wheat Chic.	518.3	-1.6					
NZD/AUD	0.9370	+0.2			IDR	14,805	-0.1		CAC 40	5,102	-0.5	-4.5	Sugar	12.61	-2.6					
NZD/EUR	0.5989	+0.1			THB	32.97	-0.5		Nikkei	21,811	-2.1	-2.5	Cotton	75.94	-0.6					
NZD/GBP	0.5201	-0.4			KRW	1,133	-0.1		Shanghai	2,655	+0.9	-22.6	Coffee	111.7	-2.1					
NZD/JPY	76.97	+0.8			TWD	30.88	-0.0		ASX 200	5,834	-1.8	-2.3	WM powder	2625.0	+0.4					
NZD/CAD	0.8944	+0.6			PHP	53.09	-0.2		NZX 50	8,862	-1.1	10.7	Australian Futures							
NZ TWI	74.25	+0.5											3 year bond	97.84	0.01					
													10 year bond	97.27	-0.02					
Interest Rates																				
	Rates				Swap Yields				Benchmark 10 Yr Bonds				NZ Government Bonds				NZ Swap Yields			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last	% Day	% Year		Last		Last		Last	% Day	% Year	
USD	2.25	2.61	3.09	3.21	USD	3.15	-0.03	NZGB 6 05/15/21	1.95	0.00		1 year	2.05	0.00						
AUD	1.50	1.95	2.08	2.90	AUD	2.73	-0.01	NZGB 5 1/2 04/15/23	2.20	0.00		2 year	2.20	0.00						
NZD	1.75	2.00	2.19	3.08	NZD	2.63	-0.00	NZGB 2 3/4 04/15/25	2.44	0.00		5 year	2.62	-0.02						
EUR	0.00	0.06	-0.12	0.96	GER	0.41	0.01	NZGB 4 1/2 04/15/27	2.63	-0.00		7 year	2.85	-0.02						
GBP	0.75	0.88	1.21	1.65	GBP	1.52	0.07	NZGB 3 04/20/29	2.79	-0.00		10 year	3.09	-0.02						
JPY	-0.07	-0.10	0.04	0.30	JPY	0.11	-0.01	NZGB 3 1/2 04/14/33	2.97	-0.01		15 year	3.34	-0.02						
CAD	1.75	1.17	2.66	2.89	CAD	2.47	-0.04	NZGB 2 3/4 04/15/37	3.10	-0.01										

* 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 06:59

Source: Bloomberg

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