

15 January 2019



Events Round-Up

CH: Exports (y/y%), Dec: -4.4 vs. 2 exp.

CH: Imports (y/y%), Dec: -7.6 vs. 4.5 exp.

EC: Industrial production (y/y%), Nov: -1.7 vs. -1.5 exp.

Good Morning

Weak Chinese trade data released yesterday generated renewed concerns about global growth, pushing equity markets lower. Global rates are little changed however and currency movements have generally been contained. The GBP remains volatile ahead of the parliamentary vote on Theresa May's deal tomorrow (UK time).

After a strong start to the year, global equity markets have pulled-back over the past 24 hours following the release of much weaker than expected Chinese trade data for December. The fall in Chinese imports pointed to a slowdown in domestic demand in China while the fall in Chinese exports added to concerns about global growth. The fall in exports wasn't confined to the US, with exports to the EU and Japan also falling. The Chinese bilateral trade surplus with the US reached a record level in 2018, something Trump is trying to rectify with the trade talks.

S&P500 futures fell close to 1% during the Asian trading session yesterday, around the time of the Chinese data release, but have since recovered around half that fall (currently -0.4%). Financials are the only sector of the S&P500 in the green on the day, buoyed by Citi's earnings results (Citi +4%). Citi beat earnings expectations and the bank said there had been "improvements" in trading conditions in the New Year, with market volatility subsiding somewhat. JPM and Wells Fargo release their earnings results tomorrow while Netflix is on Thursday night. The fall in equity markets over the past few months is consistent with the market pricing in a fall in earnings growth ahead, so the market is likely to be sensitive to earnings outcomes and guidance from management.

Rates markets are little changed from the end of last week. The 10 year US Treasury yield initially fell 4bps to 2.66% amidst the fall in equities, but it has since retraced that move and now sits unchanged on the day. We expect the 10 year US rate should be range-bound in coming months. With the Fed highly likely to be on hold in H1, and a good chance it is has finished its tightening cycle altogether, this should cap the potential upside to US rates. But conversely, with the Fed pausing now, the

risk of a policy mistake (i.e. Fed "overtightening" leading to recession) should be reduced, which should limit the extent to which rates fall from here. There will be increased focus on the Empire manufacturing survey released tonight given the sharp fall in the ISM survey earlier this month.

Currency moves have been relatively modest, with the exception of the GBP. The JPY and Swiss franc have outperformed amidst the mild-risk off tone to markets; both currencies are around 0.3% stronger on the day.

The EUR is slightly higher, despite weaker than expected industrial production data which added to evidence of a slowdown in the Eurozone over the second half of last year. Analysts think there is a good chance the German economy went into technical recession in Q4 (i.e. two consecutive quarters of negative GDP growth), although this is at least partly explained by idiosyncratic factors (i.e. new vehicles emissions standards being rolled out in Q3). Meanwhile, France continues to grapple with the economic fall-out from the "yellow vests" protests. And in Italy, the Bank of Italy Governor Rossi said he saw an acute risk of an Italian economic slowdown. Despite all this, the EUR is 0.1% higher on the day at 1.1480. The EUR remains well contained within the broader 1.12 to 1.18 range that has been in place since June last year.

The GBP has been volatile ahead of the parliamentary vote on Theresa May's deal tomorrow. European Commission President Juncker and European Council President Tusk sent a letter to Theresa May saying the EU was firmly committed to work speedily on a subsequent trade deal by the end of 2020, so the Irish backstop need not be triggered. But the letter didn't provide any of the legal reassurances that Brexiteers are clamouring for, so political analysts expect May's deal will be comprehensively voted down tomorrow. MP Steve Baker, who is part of the Brexit-supporting ERG, said that its group would vote against the deal. Bloomberg reported a survey of FX strategists that forecast GBP could move to 1.34-1.35 in the event of a second referendum or May's deal passing and as low as 1.22 in the event of a general election (raising the risk of a Jeremy Corbyn government with socialist tendencies). Strategists saw GBP heading to 1.15 in the event of no-deal, although this seems a less likely outcome with parliament stepping up its efforts to take control of the process to prevent such a scenario.

The NZD is little changed from the end of last week. The NZD initially spiked lower from 0.6830 to 0.68 after the

weaker Chinese trade, but the reaction hasn't been sustained. The retracement in US equities from the intraday lows has been accompanied by a move in the NZD back to 0.6825 as we write. The QSBO is the focus for the NZD today, although the major event for the NZ market is CPI next week.

NZ rates moved lower again on Monday, following on from the decline in US rates on Friday night (after the NZ market was closed). The 2 year swap fell 3bps to 1.905%, a record low. The 5 and 10 year swap rates were also down between 3 to 4bps and are within vicinity of the record low levels reached in mid-2016 (a time when the US 10 year rate reached a lowly 1.32%).

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	NZIER Business Opinion Survey				10:00
NZ	Food Prices (m/m%)	Dec		-0.6	10:45
NZ	Dairy Auction Avg. Winning Price (\$/mt)			2986	01/16
NZ	Dairy Auction Whole Milk Powder (\$/mt)			2705	01/16
US	PPI Final Demand (y/y%)	Dec	2.5	2.5	02:30
US	PPI Ex Food and Energy (y/y%)	Dec	2.9	2.7	02:30

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	0.6827	-0.1	0.6797	0.6832	CHF	0.9802	-0.3			S&P 500	2,586	-0.4	-7.2	Oil (Brent)	59.86	-1.0
AUD	0.7205	-0.1	0.7176	0.7210	SEK	8.945	+0.1			Dow	23,934	-0.3	-7.2	Oil (WTI)	51.19	-0.8
EUR	1.1478	+0.1	1.1451	1.1482	NOK	8.531	-0.1			Nasdaq	6,929	-0.6	-4.6	Gold	1291.4	+0.2
GBP	1.2886	+0.3	1.2819	1.2930	HKD	7.843	+0.0			Stoxx 50	3,055	-0.5	-15.4	HRC steel	693.0	+0.0
JPY	108.17	-0.3	107.99	108.36	CNY	6.768	+0.1			FTSE	6,855	-0.9	-11.9	CRB	178.1	+0.0
CAD	1.3269	+0.0			SGD	1.353	-0.0			DAX	10,856	-0.3	-18.0	Wheat Chic.	519.0	-1.1
NZD/AUD	0.9475	+0.1			IDR	14,125	+0.5			CAC 40	4,763	-1.6	-13.7	Sugar	12.74	-0.3
NZD/EUR	0.5948	-0.2			THB	31.92	-0.1			Nikkei	20,360	+1.0	-13.9	Cotton	73.11	+0.9
NZD/GBP	0.5298	-0.5			KRW	1,123	+0.6			Shanghai	2,536	-0.7	-25.6	Coffee	102.6	-1.3
NZD/JPY	73.85	-0.4			TWD	30.85	+0.2			ASX 200	5,773	-0.0	-5.0	WM powder	2860.0	+0.0
NZD/CAD	0.9059	-0.1			PHP	52.20	+0.3			NZX 50	8,969	+0.1	9.2			
NZ TWI	73.93	-0.0														

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	Last	Last	Last			
USD	2.50	2.79	2.70	2.73	USD	2.70	0.00	NZGB 6 05/15/21	1.66	-0.02	1 year	1.90	-0.01
AUD	1.50	2.06	1.90	2.53	AUD	2.27	-0.03	NZGB 5 1/2 04/15/23	1.77	-0.03	2 year	1.91	-0.03
NZD	1.75	1.92	1.90	2.60	NZD	2.11	-0.04	NZGB 2 3/4 04/15/25	1.95	-0.03	5 year	2.15	-0.03
EUR	0.00	0.06	-0.17	0.79	GER	0.23	-0.01	NZGB 4 1/2 04/15/27	2.11	-0.04	7 year	2.35	-0.03
GBP	0.75	0.92	1.18	1.47	GBP	1.30	0.01	NZGB 3 04/20/29	2.29	-0.04	10 year	2.60	-0.04
JPY	-0.06	-0.07	0.00	0.17	JPY	0.02	0.00	NZGB 3 1/2 04/14/33	2.45	-0.04	15 year	2.86	-0.04
CAD	1.75	1.17	2.26	2.47	CAD	1.95	-0.01	NZGB 2 3/4 04/15/37	2.62	-0.04			

* 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 06:48

Source: Bloomberg

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