

15 November 2018



## Events Round-Up

NZ: REINZ house sales (y/y%), Oct: 15.5 vs. -3.0 prev.  
JN: GDP (q/q%), Q3: -0.3 vs. -0.3 exp.  
AU: Wage price index (q/q%), Q3: 0.6 vs. 0.6 exp.  
CH, Retail sales (y/y%), Oct: 8.6 vs. 9.2 exp.  
CH: Industrial production (y/y%), Oct: 5.9 vs. 5.8 exp.  
CH: Fixed assets invest. (y/y%), Oct: 5.7 vs. 5.5 exp.  
GE: GDP (q/q%), Q3: -0.2 vs. -0.1 exp.  
UK: CPI core (y/y%), Oct: 1.9 vs. 1.9 exp.  
EC: Industrial production (m/m%), Sep: -0.3 vs. -0.4 exp.  
EC: GDP (q/q%), Q3: 0.2 vs. 0.2 exp.  
US: CPI ex food and energy (y/y%), Oct: 2.1 vs. 2.2 exp.

## Good Morning

Relatively calm trading conditions prevailed for most of the night, with generally limited market moves, before negative Brexit headlines late in the session saw a risk off tone take hold. Equity markets oscillated around flat before pressing lower, likewise US yields. Oil prices have recovered a small amount of recent heavy losses. The US dollar sits around 0.2% lower on the indices we track.

The market has been waiting for news on the Brexit vote in the UK parliament. GBP has been volatile. Dipping under 1.2890 early in the evening, before recovering strongly to over 1.3030 following headlines that the government sees support from DUP for the deal. More volatility occurred late in the session as news broke that PM May would not hold a press conference suggesting no progress. This was followed by news that a short statement would be given. Sentiment remains extremely fickle. GBP/USD currently sits around 1.2910, down 0.6% on the day. The EUR traded as a 'low beta' GBP, currently sitting down 0.1% at close to 1.1280. Failure to pass the deal will raise the prospects of a disorderly Brexit, a general election and also a second referendum. GBP would sink. Alternatively, passing the deal and GBP would gain sufficient support. Yes, it still looks binary.

EUR wasn't helped by weak German GDP figures early in the session and ongoing concerns around Italy's budget. Italy resubmitted its draft budget proposals to the European Commission without significant changes adding to possibility of censure. Italian 10 year bond yields rose as much as 10bps at one point before settling to be up 4.5bps against declines in core European and US yields.

Looking at the data, US CPI figures essentially matched expectations, rising 0.3% m/m to be up 2.5% y/y. Core inflation also met expectations for the month, although did come in a tick under expectations for the year. There was some evidence of tariff pass through, but the impact on the overall CPI was very small given the tariffs are focused on intermediate goods. Ex US Fed Chair, Alan Greenspan, was on the wires suggesting he is seeing the first signs of inflation appearing. Core inflation is likely to lift a little into 2019, with upwards wage pressure. But upside to headline inflation is looking contained given the sharp reversal in oil prices over recent weeks, along with a generally higher USD.

Elsewhere, both Japanese and German GDP contracted mildly in Q3. Although both are expected to rebound in Q4, as one-off hits unwind (weather in Japan, cars in Germany), the weakness in Q3 adds to the evidence that the world economy is slowing. The Q3 figures were close to expectations, with minimal market influence. USD/JPY is little changed sitting around 113.70.

A 0.4% gain is enough to put the NZD at the top of the G10 leader board given limited movement elsewhere. NZD/USD tested 0.6800 overnight and opens around 0.6790 this morning. Last week's post-labour market data high of 0.6814 is close.

The NZ TWI has maintained its strong gains post the robust NZ labour market data from a week ago. At 74.6, the TWI is up 0.1% for the day and 2.3% over the past week. The TWI now sits 3.6% above what the RBNZ assumed in its November Monetary Policy Statement.

NZD/AUD has continued its recent push higher, not hindered by yesterday's robust October housing report in NZ, while Australia's higher Q3 wage inflation only matched expectations and yesterday's Chinese activity data proved mixed. NZD/AUD pushed just above 0.9420 during the night, reaching its highest level since April, although the pair is still well shy of its year-to-date high of just over 0.9530. For today, the performance of the cross will likely hinge on Australia's employment report where the market anticipates the unemployment rate to tick marginally higher following its previous dip to 5.0%. Our NAB colleagues sees unemployment steady at 5.0%.

Oil prices have regained some composure after recent days of heavy selling pressure. Brent crude was up more than 3% at one point on speculation that OPEC will soon cut production following the recent rout. Price gains were pared to around 1.5% as risk sentiment soured.

US 10 year Treasury yields rose as high as 3.16% at one point, before retreating and pressing down towards 3.11% as the negative Brexit news appeared.

Locally, bond and swap rates were generally a touch lower yesterday reflecting moves in the previous offshore session. Yields have largely consolidated the big lurch higher post last week's strong labour market data. Having earlier priced in a decent chance of an OCR cut next year, the market is now settling around a 40% chance of a rate hike by the end of next year. NZ 5-year swap closed yesterday at 2.61%, down 1bp on the day, while 2 year swap closed flat at just under 2.20%.

Looking ahead, focus will remain on Brexit developments as well as a speech by Fed Chair Powell due at midday

NZT. Data wise, Australian employment will have the most interest locally with US retail sales holding sway overnight.

[doug\\_steel@bnz.co.nz](mailto:doug_steel@bnz.co.nz)

### Coming Up

		Period	Cons.	Prev.	NZT
US	Fed's Powell to discuss economy at Dallas Fed event				12:00
AU	Employment change (k)	Oct	20.0	5.6	13:30
AU	Unemployment rate (%)	Oct	5.1	5.0	13:30
NZ	NZ to sell \$150m 2037 bonds				14:05
UK	Retail sales ex auto fuel (m/m%)	Oct	0.2	-0.8	22:30
US	Retail sales ex auto (m/m%)	Oct	0.5	-0.1	02:30
US	Philly Fed business out.	Nov	20.0	22.2	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	Net Day	
NZD	0.6794	+0.5	0.6767	0.6801	CHF	1.0075	+0.0						
AUD	0.7217	-0.0	0.7188	0.7231	SEK	9.098	+0.5						
EUR	1.1294	+0.0	1.1263	1.1348	NOK	8.513	+0.2						
GBP	1.2952	-0.2	1.2886	1.3036	HKD	7.832	+0.0						
JPY	113.68	-0.1	113.60	114.01	CNY	6.951	-0.1						
CAD	1.3247	+0.1			SGD	1.379	-0.1						
NZD/AUD	0.9414	+0.5			IDR	14,787	-0.1						
NZD/EUR	0.6016	+0.4			THB	32.99	+0.1						
NZD/GBP	0.5246	+0.6			KRW	1,134	+0.1						
NZD/JPY	77.23	+0.3			TWD	30.92	+0.1						
NZD/CAD	0.9000	+0.5			PHP	53.15	+0.1						
NZ TWI	74.63	+0.4											
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	2.62	3.05	3.18	USD	3.11	-0.03	NZGB 6 05/15/21	1.94	-0.01	1 year	2.06	0.01
AUD	1.50	1.94	2.08	2.88	AUD	2.70	-0.03	NZGB 5 1/2 04/15/23	2.18	-0.01	2 year	2.20	0.00
NZD	1.75	2.01	2.20	3.07	NZD	2.62	-0.01	NZGB 2 3/4 04/15/25	2.43	-0.02	5 year	2.61	-0.02
EUR	0.00	0.06	-0.12	0.95	GER	0.40	-0.01	NZGB 4 1/2 04/15/27	2.62	-0.01	7 year	2.83	-0.02
GBP	0.75	0.88	1.19	1.63	GBP	1.51	-0.02	NZGB 3 04/20/29	2.77	-0.02	10 year	3.07	-0.02
JPY	-0.07	-0.10	0.04	0.29	JPY	0.11	-0.00	NZGB 3 1/2 04/14/33	2.95	-0.01	15 year	3.32	-0.02
CAD	1.75	1.17	2.63	2.84	CAD	2.42	-0.04	NZGB 2 3/4 04/15/37	3.09	-0.02			

\* 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 07:03

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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