

16 January 2019



Events Round-Up

NZ: QSBO business confidence, Q4: -17 v -30 prev.

NZ: Food prices (m/m%), Dec: -0.2 vs. -0.6 prev.

NZ: Global Dairy Trade avg. winning price (\$/mt): 3057 vs. 2986 prev.

NZ: Global Dairy Trade whole milk powder (\$/mt): 2777 vs. 2705 prev.

US: Empire manufacturing, Jan: 3.9 vs. 10 exp.

US: PPI final demand (y/y%), Dec: 2.5 vs. 2.5 exp.

US: PPI ex food and energy (y/y%), Dec: 2.7 vs. 2.9 exp.

Good Morning

Risk sentiment has improved overnight on news of tax cuts in China, with global equity markets higher and US bond yields inching up. But the main event is the UK parliamentary vote on Theresa May's Brexit deal at 8am NZT, which will set the tone for risk assets and currencies in the day ahead. The GBP has weakened, and the USD strengthened, ahead of the vote. The NZD has moved lower despite an improvement in NZ business confidence and increase in dairy prices.

Risk markets are trading with a more positive tone over the past 24 hours after China announced it would step up stimulus measures, including value-added tax cuts for certain industries (Ministry of Finance officials described these tax cuts as "on a larger scale" than previously). Chinese equities were around 2% higher, and the positive sentiment has carried through into US markets. The S&P500 has pushed through resistance at 2,600 and is up 0.9% on the day. The NASDAQ is 1.5% higher, supported by Netflix's announcement that it would raise prices for its US customers, a sign of growing pricing power.

In corporate earnings, JP Morgan missed its earnings estimates due to a sharp slowing in fixed income trading revenue in Q4, amidst the surge in market volatility, but its share price has recovered from earlier falls to be up marginally on the day. JPM's core loan book increased 6.7% on the year, above the bank's 6% target, despite some softening in demand for mortgages amidst higher rates. The earnings season continues tonight with other US banks reporting (including MS and Bank of America) alongside Netflix.

US rates have edged marginally higher amidst the bounce

in equity markets. The 10 year Treasury yield is at 2.72%, a 1bp move higher on the day. The Empire Manufacturing survey fell sharply to 3.9, its lowest level since mid-2017, and pointing to the risk of a further fall in the ISM Manufacturing survey which is released early next month. There was little market impact from the data however.

While risk sentiment has been more positive overnight, this could all change over the next few hours, with the UK parliament set to vote on Theresa May's Brexit deal at 8am NZT. The Results are expected shortly after 9am, and with the deal universally expected to fail, the market is focused on the margin of the defeat (minimum defeat by 100 votes assuming Brexiteers and the DUP vote against it; possibly up to a 200 vote defeat). Labour is likely to call a vote of no confidence vote in the government over the coming days. Volatility is likely to be high in the GBP, possibly affecting broader risk markets, although the tail risk of a no-deal outcome looks much less likely with parliament (comprising around 70% MPs who voted remain) asserting greater control over the process over the past month.

We wouldn't read too much into pre-vote movements in currencies. But as things stand, the GBP is the weakest G10 currency on the day, and has fallen over 1% ahead of the vote to 1.2715. The EUR has fallen 0.7% to below 1.14, with comments from ECB President Draghi also weighing on the currency. Draghi noted that "*recent economic developments have been weaker than expected and uncertainties, notably related to global factors, remain prominent*", adding that the Eurozone needed a significant amount of monetary stimulus to hit its inflation target (core inflation has been broadly unchanged at around 1% for the past five years). On a more encouraging note, the German statistics office said it expected a "slight" expansion in GDP in Q4, meaning the economy would avert a technical recession (as some had predicted), although the data was partial and the official figures are not released until next month.

The flip-side of weakness in the GBP and EUR has been broad-based strength in the USD. The USD indices we monitor are around 0.5-0.6% higher on the day (although well contained within the broader trading ranges that have been in place over the past six months).

Against this backdrop, the NZD has fallen a relatively modest 0.3% to 0.68 over the past 24 hours. A further improvement in dairy prices at the fortnightly Global Dairy Trade auction overnight likely added some support to the

NZD. Whole milk powder prices were up 3% while the broader dairy index was 4.2% higher, towards the upper-end of our expectations. Slowing global milk supply and the rapid reduction in the EU's SMP stockpile have been supporting prices of late, alongside the recent bounce in oil.

In domestic data released yesterday, the QSBO business survey showed a pick-up in activity indicators, as foreshadowed by the latest ANZ survey, and consistent with growth running around trend. What stood out to us, however, was the increase in difficulty finding skilled and unskilled labour, to levels comparable to the extremes between 2003 and 2007 (when the unemployment rate eventually fell to 3.3%). This level of tightness in the labour market should eventually put upward pressure on wages. There was little reaction to the data in either the rates or FX markets, with market participants looking ahead to the all-important CPI release next week. NZ rates were marginally lower on the day.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card Spending - Retail (m/m%)	Dec	-0.4	-0.4	10:45
NZ	Card Spending - Total (m/m%)	Dec		-0.2	10:45
GE	CPI (y/y%)	Dec F	1.7	1.7	20:00
UK	BOE Carney Testifies on Financial Stability Report				22:15
UK	CPI (y/y%)	Dec	2.1	2.3	22:30
UK	CPI Core (y/y%)	Dec	1.8	1.8	22:30
US	NAHB Housing Market Index	Jan	56	56	04:00

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	0.6805	-0.2	0.6804	0.6849	CHF	0.9889	+0.8	S&P 500	2,609	+1.0	-6.4	Oil (Brent)	60.21	+2.1
AUD	0.7185	-0.2	0.7184	0.7226	SEK	8.991	+0.5	Dow	24,053	+0.6	-6.8	Oil (WTI)	51.81	+2.6
EUR	1.1388	-0.7	1.1383	1.1485	NOK	8.564	+0.2	Nasdaq	7,015	+1.6	-3.4	Gold	1287.2	-0.3
GBP	1.2727	-1.1	1.2723	1.2916	HKD	7.843	+0.0	Stoxx 50	3,068	+0.4	-15.1	HRC steel	690.0	-0.7
JPY	108.65	+0.5	108.33	108.77	CNY	6.761	-0.1	FTSE	6,895	+0.6	-11.3	CRB	178.8	+0.6
CAD	1.3277	-0.1			SGD	1.357	+0.3	DAX	10,892	+0.3	-17.5	Wheat Chic.	515.8	-0.7
NZD/AUD	0.9471	-0.1			IDR	14,090	-0.2	CAC 40	4,786	+0.2	-13.1	Sugar	13.15	+3.3
NZD/EUR	0.5976	+0.5			THB	31.90	-0.1	Nikkei	20,555	+1.0	-14.2	Cotton	72.72	-0.4
NZD/GBP	0.5347	+0.8			KRW	1,121	-0.2	Shanghai	2,570	+1.4	-25.2	Coffee	101.3	-1.4
NZD/JPY	73.94	+0.2			TWD	30.82	-0.1	ASX 200	5,815	+0.7	-3.9	WM powder	2860.0	+0.0
NZD/CAD	0.9035	-0.3			PHP	52.03	-0.3	NZX 50	8,965	-0.0	8.7	Australian Futures		
NZ TWI	73.87	-0.1										3 year bond	98.225	0.00
												10 year bond	97.71	0.00
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	2.50	2.78	2.70	2.74	USD	2.71	0.01	NZGB 6 05/15/21	1.67	0.01	1 year	1.90	-0.00	
AUD	1.50	2.06	1.90	2.54	AUD	2.29	0.01	NZGB 5 1/2 04/15/23	1.78	0.00	2 year	1.90	-0.01	
NZD	1.75	1.90	1.89	2.59	NZD	2.12	0.01	NZGB 2 3/4 04/15/25	1.95	0.00	5 year	2.14	-0.01	
EUR	0.00	0.06	-0.17	0.77	GER	0.21	-0.03	NZGB 4 1/2 04/15/27	2.12	0.01	7 year	2.35	-0.01	
GBP	0.75	0.92	1.16	1.45	GBP	1.26	-0.04	NZGB 3 04/20/29	2.29	0.00	10 year	2.59	-0.00	
JPY	-0.06	-0.07	0.00	0.17	JPY	0.01	-0.00	NZGB 3 1/2 04/14/33	2.46	0.00	15 year	2.85	-0.00	
CAD	1.75	1.17	2.28	2.48	CAD	1.97	0.00	NZGB 2 3/4 04/15/37	2.62	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 06:54

Source: Bloomberg

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