

16 November 2018



Events Round-Up

AU: Employment change (k), Oct: 32.8 vs. 20.0

AU: Unemployment rate (%), Oct: 5.0 vs. 5.1 exp.

UK: Retail sales ex auto fuel (m/m%), Oct: -0.4 vs. 0.2 exp.

US: Retail sales ex auto (m/m%), Oct: 0.7 vs. 0.5 exp.

US: Philly Fed business out., Nov: 12.9 vs. 20.0 exp.

Good Morning

Brexit has been the key focus for the market and it's not looking good for the UK, with GBP trashed again and UK gilt yields plunging, dragging down US Treasury yields. After a bad start, US equities are now back to square. The NZD continues to perform well, making further gains overnight.

Brexit headlines continue to come thick and fast as the deadline to come to some sort of agreement approaches. The UK-EU withdrawal agreement that the Cabinet signed off yesterday does not have widespread support and triggered a series of Ministerial resignations, including that of Brexit Secretary Raab and the Northern Ireland Minister Vara. As written, it will be difficult to get the agreement through Parliament and now PM May faces a threat to her leadership. There are enough votes to initiate a formal leadership vote. Brexiteer Rees-Mogg said that a leadership contest could be completed in "not months, but weeks". PM May has just faced the press and looks like digging her heels in for now, signalling that she is prepared to fight a leadership challenge.

Permutations from here remain wide and varied. The withdrawal agreement could be modified to appease those in the UK Parliament to get it through although the EU would have to be on board with any changes. At the other end of the scale, the lack of any agreement could see a hard Brexit and economic chaos from 29 March. In the middle of those two extremes, an extension of Article 50 could be provided, which buys more time for the UK to negotiate. Fresh elections, a change in government and a new referendum on Brexit are all further possibilities, which make the potential range for GBP +/- 10 big figures from here and fairly binary and unpredictable overall.

From levels prevailing above 1.30, GBP plunged as soon as news of the first resignation came through, falling by more than 2% to as low as 1.2730. It currently sits at 1.2760, down 1.3% from this time yesterday. As has been the pattern recently, EUR was caught in the crossfire

and reached a low just above 1.1270 but has since recovered lost ground and has traded independently of the weaker GBP, now back to 1.1320. Earlier in the session, UK retail sales figures were much weaker than expected, falling from the strong run during the unusually hot summer.

The UK 10-year Gilt is down 14bps to 1.36% and this big move has put downward pressure on global yields, with Germany's 10-year rate down 4bps to 0.36% and the US 10-year rate down 3bps to 3.10%. Headline US retail sales growth was stronger than expected, but there were downward revisions to historical data and the control group – which includes a number of key sub-groups and feeds into GDP figures – was weaker than expected and consistent with a slowdown in spending from the previous unsustainable strong rate. The Philly Fed business survey was on the soft side, indicating a slowdown in growth momentum for the region.

The NZD continues to be in demand and has continued to trend higher and trades this morning at 0.6825. Closing of speculative short positioning might well be continuing behind the scenes. The AUD was boosted yesterday by a stronger than expected jobs report, which saw the unemployment rate hold its ground at 5.0% rather than tick higher. AUD met some resistance just under 0.73 and trades this morning at 0.7270. NZD/AUD fell 50pips to 0.9340 following the employment report but it has clawed back all of that loss overnight and hit the 0.94 mark again earlier this morning. On other crosses, the weak GBP saw NZD/GBP up to 0.5350 this morning, its highest level since January. NZD/EUR is meeting some resistance around the 0.6030 level.

The NZ rates curve saw a little downward pressure in yields yesterday and that should be the bias for today as well, in response to the global forces overnight. The economic calendar is fairly light to end the week and next week is looking quiet as well. No doubt Brexit will remain in the headlines, with more drama to play out over the coming week.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	BNZ manufacturing PMI	Oct		51.7	10:30
US	Industrial production (m/m%)	Oct	0.2	0.3	03:15

Source: Bloomberg, BNZ.

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)				Other FX			Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6823	+0.4	0.6792	0.6835	CHF	1.0061	-0.1		S&P 500	2,706	+0.2	5.5	Oil (Brent)	66.80	+1.0
AUD	0.7266	+0.5	0.7250	0.7298	SEK	9.071	-0.2		Dow	24,974	-0.4	7.3	Oil (WTI)	56.65	+0.7
EUR	1.1318	+0.1	1.1271	1.1351	NOK	8.495	-0.2		Nasdaq	7,149	+0.2	6.6	Gold	1213.1	+0.2
GBP	1.2750	-1.9	1.2730	1.3030	HKD	7.831	-0.0		Stoxx 50	3,190	-0.5	-10.0	HRC steel	801.0	+0.1
JPY	113.37	-0.2	113.10	113.59	CNY	6.939	-0.2		FTSE	7,038	+0.1	-4.5	CRB	185.9	-1.2
CAD	1.3198	-0.3			SGD	1.376	-0.2		DAX	11,354	-0.5	-12.5	Wheat Chic.	515.0	+0.6
NZD/AUD	0.9390	-0.0			IDR	14,665	-0.8		CAC 40	5,034	-1.6	-5.0	Sugar	12.61	-0.3
NZD/EUR	0.6028	+0.3			THB	32.95	-0.0		Nikkei	21,804	-0.2	-2.4	Cotton	76.43	+0.1
NZD/GBP	0.5351	+2.3			KRW	1,129	-0.4		Shanghai	2,668	+1.4	-21.5	Coffee	113.7	-2.2
NZD/JPY	77.35	+0.1			TWD	30.85	-0.2		ASX 200	5,736	+0.1	-3.5	WMI powder	2680.0	+2.1
NZD/CAD	0.9005	+0.0			PHP	52.75	-0.8		NZX 50	8,826	-0.0	9.8	Australian Futures		
NZ TWI	74.79	+0.2											3 year bond	97.85	0.02
													10 year bond	97.31	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		Last		Last				
USD	2.25	2.63	3.04	3.16	USD	3.09	-0.03	NZGB 6 05/15/21	1.94	0.00	1 year	2.04	-0.02		
AUD	1.50	1.94	2.09	2.87	AUD	2.72	0.02	NZGB 5 1/2 04/15/23	2.18	0.00	2 year	2.20	-0.01		
NZD	1.75	2.00	2.17	3.05	NZD	2.60	-0.02	NZGB 2 3/4 04/15/25	2.42	-0.01	5 year	2.60	-0.01		
EUR	0.00	0.06	-0.13	0.93	GER	0.36	-0.04	NZGB 4 1/2 04/15/27	2.60	-0.02	7 year	2.82	-0.01		
GBP	0.75	0.89	1.12	1.53	GBP	1.37	-0.13	NZGB 3 04/20/29	2.75	-0.02	10 year	3.05	-0.01		
JPY	-0.07	-0.11	0.03	0.29	JPY	0.11	-0.00	NZGB 3 1/2 04/14/33	2.93	-0.03	15 year	3.31	-0.01		
CAD	1.75	1.17	2.60	2.83	CAD	2.39	-0.05	NZGB 2 3/4 04/15/37	3.06	-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 06:58

Source: Bloomberg

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