

17 January 2019



Events Round-Up

NZ: Card spending – retail (m/m%), Dec: -2.3% v -0.4 exp.

NZ: Westpac employment confidence, Q4: 121.3 vs. 114.5 prev.

AU: Westpac consumer confidence, Jan: 99.6 vs. 104.4 prev

UK: CPI (y/y%), Dec: 2.1 vs. 2.1 exp.

UK: Core CPI (y/y%), Dec: 1.9 vs. 1.8 exp.

US: NAHB housing market index, Jan: 58 vs. 56 exp.

Good Morning

Risk sentiment continues to gradually improve, with better than expected earnings from US banks helping to support equity markets. Theresa May's deal was voted down by a record margin, but the market sees a shift towards a softer Brexit and away from a no-deal scenario; GBP has bounced strongly from yesterday morning's lows. The NZD has underperformed overnight and the NZ 2 year swap rate made a fresh low yesterday.

Equity markets continue to claw their way upwards, as concerns about global growth and corporate earnings recede and volatility falls. The S&P500 increased 0.3% overnight, leaving it 11.5% off the lows reached on Christmas Eve. It remains more than 10% from the record highs reached in early October. The 10 year US Treasury yield inched upwards to 2.73%.

Financials led the gains in US equities after better than expected earnings results from both Bank of America and Goldman Sachs. Both banks experienced a sharp fall in fixed income trading revenues (in-line with Citi and JPM) but Goldman was boosted by strong performance from its advisory business while Bank of America saw strong growth in its retail arm. The share prices of both banks were up around 8%. Bank of America's CEO said its loan growth was indicative of strength in the US consumer and noted "*we see in the U.S. strong indications of continued growth.*" Those positive comments contrast against market expectations of a sharp slowing in the economy, and possible risk of US recession. Alcoa reports after the bell this morning while Netflix and Taiwan Semiconductor are among companies reporting tomorrow. The results of Taiwan Semiconductor, the largest semiconductor manufacturer in the world and a key Apple supplier, will be closely watched as a barometer of iPhone demand.

The other key event over the past 24 hours has been the UK parliament vote on Theresa May's Brexit deal, which was voted down by a record 230 vote margin yesterday morning. After the results came in, the GBP moved sharply higher, reversing all its losses from earlier in the trading session (but ending close to unchanged on the day). GBP is now trading around 1.2850 as we await the results of Labour's motion of no confidence in the government, due at around 8am NZT. May's government is expected to survive the no-confidence vote.

Looking ahead, May now has until Monday to return to parliament with a "Plan B". The broad options are: attempt to renegotiate the deal with the EU such that it is palatable to UK MPs (although the EU has signalled little willingness to compromise on the key issue of the Irish border); the UK to join the Customs Union, which is Labour party policy but opposed by Brexiteers, or a Norway-style membership of the Single Market; a second referendum; or a no-deal.

While the situation remains fluid, our read is that the direction of travel is towards a softer Brexit and a delay to the Article 50 deadline date of March 29th. Overnight, May refused to rule out an extension to Article 50 or a Customs Union solution and European leaders signalled a willingness to consider a delay to the leave date. In addition, there are signs that MPs are making moves to take control of the process to ensure a no-deal scenario doesn't happen. As such, we're becoming more constructive on the GBP and think it should gravitate higher over the coming weeks and months. We think NZD/GBP should move lower too.

Currency moves elsewhere have been reasonably modest. The USD indices are close to flat on the day. The NZD is the worst performer in the G10, down 0.5% to 0.6780. There wasn't any obvious catalyst for the move lower in the NZD, which started in the London morning, although it might reflect a correction from recent outperformance (the NZD is still one of the best performing currencies over the past five days). NZ electronic card spending data released yesterday was much worse than expected although we think it was distorted by trading-day effects (there were only 19 regular business days in December).

Domestic swap rates fell 3-4bps across the curve yesterday, taking the 2 year swap down to a fresh record low of 1.865% and the 5 year rate to 2.10%, 5bps from its record low reached in mid-2016. The 7bp fall in the 90 day bank bill rate this year, to 1.90%, has contributed to

the move lower in front-end rates. And with the 2 year swap rate now trading below the 90 day rate (thus eliminating the carry advantage to being received in that tenor), receiving interest from the investor community has extended down the curve. The rates market ignored the lift in NZ employment confidence to a 10 year high, and retained a 50% chance of a cut in the OCR by late this year. CPI next week is the next key data point for NZ rates.

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Coming Up

		Period	Cons.	Prev.	NZT
US	U.S. Federal Reserve Releases	Beige Book			08:00
AU	Home Loans (m/m%)	Nov	-1.5	2.2	13:30
EC	Core CPI (y/y%)	Dec F	1	1	23:00
US	Building Permits	Dec	1289	1328	02:30
US	Housing Starts	Dec	1250	1256	02:30
US	Philadelphia Fed Business Outlook	Jan	9.5	9.4	02:30
US	Initial Jobless Claims		220	216	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	0.6783	-0.5	0.6755	0.6831	CHF	0.9897	+0.2			S&P 500	2,618	+0.3	-5.7	Oil (Brent)	60.67	+0.1
AUD	0.7176	-0.3	0.7162	0.7212	SEK	8.992	+0.3			Dow	24,208	+0.6	-6.1	Oil (WTI)	51.80	-0.6
EUR	1.1401	-0.1	1.1378	1.1425	NOK	8.542	-0.0			Nasdaq	7,040	+0.2	-2.5	Gold	1294.5	+0.5
GBP	1.2853	-0.1	1.2841	1.2896	HKD	7.843	-0.0			Stoxx 50	3,077	+0.3	-15.0	HRC steel	691.0	-0.1
JPY	108.93	+0.2	108.43	108.94	CNY	6.757	-0.1			FTSE	6,863	-0.5	-11.5	CRB	179.3	+0.2
CAD	1.3247	-0.1			SGD	1.355	-0.1			DAX	10,931	+0.4	-17.5	Wheat Chic.	516.8	+0.2
NZD/AUD	0.9452	-0.1			IDR	14,128	+0.3			CAC 40	4,811	+1.1	-12.8	Sugar	13.16	+0.0
NZD/EUR	0.5949	-0.4			THB	31.70	-0.7			Nikkei	20,443	-0.5	-14.4	Cotton	73.36	+1.4
NZD/GBP	0.5277	-0.4			KRW	1,120	-0.1			Shanghai	2,570	+0.0	-25.4	Coffee	102.7	+1.3
NZD/JPY	73.89	-0.3			TWD	30.83	+0.0			ASX 200	5,835	+0.4	-3.0	WM powder	2800.0	-2.1
NZD/CAD	0.8985	-0.7			PHP	52.23	+0.4			NZX 50	9,027	+0.7	8.8	Australian Futures		
NZ TWI	73.59	-0.4												3 year bond	98.22	0.00
														10 year bond	97.70	0.00

Interest Rates													
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds						
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	2.50	2.77	2.71	2.76	USD	2.72	0.01	NZGB 6 05/15/21	1.66	-0.01	1 year	1.87	-0.02
AUD	1.50	2.06	1.92	2.55	AUD	2.27	-0.02	NZGB 5 1/2 04/15/23	1.76	-0.02	2 year	1.87	-0.03
NZD	1.75	1.90	1.87	2.57	NZD	2.09	-0.03	NZGB 2 3/4 04/15/25	1.93	-0.02	5 year	2.10	-0.04
EUR	0.00	0.06	-0.17	0.78	GER	0.22	0.02	NZGB 4 1/2 04/15/27	2.09	-0.03	7 year	2.31	-0.03
GBP	0.75	0.93	1.18	1.49	GBP	1.31	0.05	NZGB 3 04/20/29	2.26	-0.03	10 year	2.56	-0.04
JPY	-0.06	-0.07	0.00	0.17	JPY	0.01	-0.00	NZGB 3 1/2 04/14/33	2.43	-0.02	15 year	2.82	-0.04
CAD	1.75	1.17	2.30	2.51	CAD	1.99	0.02	NZGB 2 3/4 04/15/37	2.59	-0.03			

* 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 06:47

Source: Bloomberg

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