

18 December 2018



## Events Round-Up

NZ: Performance of Services index, Nov: 53.5 vs. 55.4 prev.

EC: Core CPI (y/y%), Nov (final): 1 vs. 1 exp.

US: Empire manufacturing, Dec: 10.9 vs. 20 exp.

US: NAHB housing market index, Dec: 56 vs. 60 exp.

## Good Morning

Equity markets have weakened again overnight amid a broader risk-off tone to markets. The NZD is little changed ahead of the Federal Reserve meeting and NZ GDP on Thursday morning.

The three main US equity benchmarks are down between 0.9% and 1.1%, following earlier falls in European equities. There was no obvious trigger for the equity market decline, although markets remain anxious about the global growth outlook, with the recent run of soft data in China and Europe adding to pre-existing concerns that impact of the US fiscal stimulus is set to wane later next year. Market sentiment remains fragile.

Ahead of the Fed meeting, President Trump send another broadside on Twitter, saying *"It is incredible that with a very strong dollar and virtually no inflation, the outside world blowing up around us, Paris is burning and China way down, the Fed is even considering yet another interest rate hike. Take the Victory!"* The market expects the Fed to defy Trump by raising rates but to drop its reference to "further gradual increases" in the Fed funds rate, signalling that monetary policy will be more data-dependent next year. With rates at the lower-end of the Fed's neutral rate estimates, the hurdle for additional hikes will be higher than previously. We expect Fed officials' median interest rate forecast for next year to decline from three hikes to two hikes, which would reinforce the notion that Fed might "pause" its tightening cycle in March (the market prices a 30% chance of a March hike). US Treasury yields have drifted lower amidst the fall in equities, with the curve moving down by 2.5bps. The 10 year Treasury yield has been locked in a tight 2.83% - 2.93% range since early December.

In economic data, the NAHB housing index fell again, taking it to its lowest level since mid-2015. The US housing market has softened this year on the back of the previous rise in US mortgage rates. The Empire

manufacturing index fell sharply, although the employment component increased. There was little reaction to the data.

Having made a fresh 18-month high on Friday night, the USD has pulled back overnight. The DXY index is down 0.3% to 97.16.

The EUR is 0.3% stronger to 1.1350, with sentiment boosted by news that the populist coalition government had settled on a 2.04% fiscal deficit target for 2019. Deputy PM Salvini announced *"we've reached agreement on everything"*. The European Commission still needs to formally agree to the proposal, but the watered-down deficit target should reduce the risk of financial penalties for Italy. In the UK, Theresa May said the parliamentary vote on her Brexit deal would be held in the week of the 14<sup>th</sup> January. GBP was up slightly and sits just above 1.2620.

The NZD is little changed from this time yesterday and has remained within a narrow 0.6785 – 0.6820 range; it is currently hovering around 0.68. Yesterday, the PSI index fell 1.9 points, adding to evidence that growth in the service sector has settled at a slower pace over the past six months. The ANZ business survey is released today and there is another GDT dairy auction tonight (we see a good chance that prices increase somewhat). The major domestic focus is GDP on Thursday.

NZ rates drifted lower again yesterday, led by the 5-year point. The RBNZ's proposal to significantly increase NZ banks' capital levels has added to the perception of a low-for-long OCR outlook, although the market reaction has been very modest so far. If higher capital requirements lead to a bigger "wedge" between real economy lending rates and the OCR, the implication is that the neutral level of the OCR will be lower in the future than otherwise.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Business Confidence	Dec		-37.1	13:00
NZ	ANZ Activity Outlook	Dec		7.6	13:00
AU	RBA Dec. Meeting Minutes				13:30
GE	IFO Business Climate	Dec	101.7	102	22:00
NZ	Dairy Auction Avg. Winning Price (\$/mt)			2819	12/19
NZ	Dairy Auction Whole Milk Powder (\$/m)			2667	12/19
US	Housing Starts	Nov	1230	1228	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	0.6800	+0.0	0.6778	0.6813	CHF	0.9925	-0.6		S&P 500	2,580	-0.7	-3.6	Oil (Brent)	59.83	-0.6
AUD	0.7179	+0.1	0.7151	0.7194	SEK	9.045	-0.2		Dow	23,875	-1.1	-3.2	Oil (WTI)	50.34	-1.6
EUR	1.1353	+0.4	1.1270	1.1362	NOK	8.628	+0.2		Nasdaq	6,859	-0.8	-1.1	Gold	1249.3	+0.6
GBP	1.2621	+0.3	1.2530	1.2633	HKD	7.812	-0.0		Stoxx 50	3,064	-0.9	-14.0	HRC steel	731.0	-0.7
JPY	112.80	-0.5	113.22	113.67	CNY	6.897	-0.1		FTSE	6,773	-1.1	-9.6	CRB	178.5	-1.0
CAD	1.3404	+0.1			SGD	1.374	-0.2		DAX	10,772	-0.9	-17.8	Wheat Chic.	541.5	+0.9
NZD/AUD	0.9472	+0.1			IDR	14,580	-0.0		CAC 40	4,800	-1.8	-10.3	Sugar	12.51	-1.1
NZD/EUR	0.5990	-0.3			THB	32.79	-0.1		Nikkei	21,507	+0.6	-6.1	Cotton	78.12	-1.9
NZD/GBP	0.5388	-0.2			KRW	1,131	+0.1		Shanghai	2,598	+0.2	-20.5	Coffee	100.2	-2.1
NZD/JPY	76.70	-0.5			TWD	30.86	-0.0		ASX 200	5,658	+1.0	-6.3	WM powder	2835.0	+0.0
NZD/CAD	0.9115	+0.2			PHP	53.05	-0.1		NZX 50	8,746	+0.3	4.8	<b>Australian Futures</b>		
NZ TWI	74.60	-0.1											3 year bond	98.035	0.01
													10 year bond	97.56	0.01
<b>Interest Rates</b>															
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields						
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last					
USD	2.25	2.80	2.86	2.90	USD	2.86	-0.03	NZGB 6 05/15/21	1.77	-0.00	1 year	2.01	-0.00		
AUD	1.50	2.02	1.96	2.65	AUD	2.44	-0.02	NZGB 5 1/2 04/15/23	1.94	-0.00	2 year	2.07	-0.01		
NZD	1.75	1.97	2.07	2.76	NZD	2.30	-0.01	NZGB 2 3/4 04/15/25	2.14	-0.01	5 year	2.34	-0.02		
EUR	0.00	0.06	-0.13	0.87	GER	0.26	0.00	NZGB 4 1/2 04/15/27	2.30	-0.01	7 year	2.53	-0.01		
GBP	0.75	0.90	1.17	1.45	GBP	1.27	0.03	NZGB 3 04/20/29	2.46	-0.01	10 year	2.76	-0.01		
JPY	-0.07	-0.10	0.00	0.21	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	2.64	-0.01	15 year	3.01	-0.01		
CAD	1.75	1.17	2.37	2.58	CAD	2.06	-0.04	NZGB 2 3/4 04/15/37	2.81	-0.01					

\* 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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