

19 December 2018



Events Round-Up

NZ: ANZ bus. confid. (net%), Dec: -24.1 vs. -37.1 prev.

NZ: ANZ activity out. (net%). Dec: 13.6 vs. 7.6 prev.

GE: IFO business climate, Dec: 101.0 vs. 101.7 exp.

NZ: GDT dairy auction, avg. winning price: +1.7%

US: Housing starts (k), Nov: 1256 vs. 1226 exp.

US: Building permits (k), Nov: 1328 vs. 1260 exp.

Good Morning

After a couple of big daily falls US equities are up 0.8-1.2% but, as we've seen, anything can happen in the last few hours of the trading session. US bonds have rallied a little ahead of the US FOMC announcement tomorrow. Most currencies are little changed overnight. CAD is softer as oil prices continue to fall, while the NZD has sustained the gains it saw in local trading yesterday.

Ahead of the Fed's monetary policy announcement tomorrow, the WSJ published an editorial headed "Time for a Fed pause", arguing the case for the Fed not to hike rates so soon again. "What to do? The right answer is to ignore the politics, inside and outside the Fed, and follow the signals that suggest a prudent pause in raising rates at this week's meeting". President Trump tweeted "I hope the people over at the Fed will read today's Wall Street Journal Editorial before they make yet another mistake.... Feel the market... Good luck!".

We have sympathy with the view that the Fed should pause, considering the backdrop of slower global growth and tentative evidence of this spilling over into the US economy, alongside a weaker inflationary dynamic and poor market sentiment. However, the Fed has already guided the market towards expecting another hike and it doesn't want to be seen to be bowing to pressure from the government or simply reacting to a weaker equity market. So the market prices a high chance of another rate hike tomorrow, but continues to price out rate hikes further out. US Treasury yields are down about 3bps cross the curve, with the 10-year rate down to 2.83%.

Yesterday, President Xi spoke in Beijing at a conference marking the 40th anniversary of China's reform programme. He lauded the accomplishments achieved over the period and, in a Trump-like manner, highlighted the "absolute correctness" of the party leadership. The speech was clearly directed at a domestic audience. He

sounded defiant in expressing that "No one is in the position to dictate to the Chinese people what should and should not be done" and while there was no mention of the trade war with the US, notably he reaffirmed China's pursuit of "indigenous innovation" in "core technologies." There was nothing in the speech to assuage market fears about the ongoing US-China trade war or any new policies that might support the economy. However, we should see China release its 2019 growth strategy plans later this week.

In economic data, Germany's IFO business climate index slipped by slightly more than expected to a 2-year low. Previously, new emissions-testing rules that drove a slump in autos production was blamed for the pothole in the economy in Q3, but without any recovery in activity indicators, weaker growth looks to have more fundamental undertones, such as the slower global economy. US housing starts and permits were stronger than expected, although the former were driven by the more volatile multi-family dwellings.

In currency markets, the NZD and AUD rallied alongside CNH yesterday afternoon ahead of President Xi's speech, perhaps hopeful for some fresh policies. The NZD was supported by the ANZ business outlook survey, which showed businesses were less pessimistic and activity indicators a little stronger. The NZD has managed to hold onto those gains and trades this morning at 0.6850, after reaching as high as 0.6880 late last night. There was no market reaction to the GDT dairy auction, which showed prices rising for the second consecutive auction, breaking the multi-month run of price declines. The AUD hasn't held onto yesterday's gains and is back down to 0.7170, seeing NZD/AUD up to 0.9550.

With not much currency action elsewhere, the NZD is higher on the all the crosses for the day. CAD has been the biggest mover, to the downside, as oil prices continue to fall, down in the order of 4-5%, with WTI currently at \$47.40 and Brent at \$57.30. NZD/CAD is up over 1% to 0.9230.

GBP and EUR are up slightly for the day despite focus on a "no-deal" Brexit. The EU is preparing for the possibility of a no-deal Brexit, with more detailed plans expected to be published later this week. An EU official said that if the UK fails to ratify the withdrawal agreement by 29 March, it will take unilateral steps to protect its interests, putting in place a bare minimum of emergency measures. The UK Cabinet spent a 3-hour meeting debating the merits or

otherwise of a no-deal outcome and agreed to begin implementing its no-deal plans "in full", even though the priority is to get PM May's deal through Parliament.

In the day ahead, NZ's current account balance is expected to head deeper into deficit territory while tonight sees the release of UK and Canada CPI figures and US existing home sales. We expect fairly quiet trading conditions ahead of the FOMC release at 8am NZ time tomorrow.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Westpac consumer confid.	Q4		103.5	09:00
NZ	Current account (%GDP)	Q3	-3.6	-3.3	10:45
UK	CPI (y/y%)	Nov	2.3	2.4	22:30
UK	CPI core (y/y%)	Nov	1.8	1.9	22:30
CA	CPI (y/y%)	Nov	1.8	2.4	02:30
US	Existing home sales (m)	Nov	5.20	5.22	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	0.6851	+0.7	0.6845	0.6880	CHF	0.9927	-0.0	S&P 500	2,569	+0.9	-4.5	Oil (Brent)	57.50	-3.6
AUD	0.7174	-0.1	0.7169	0.7204	SEK	9.064	+0.1	Dow	23,867	+1.2	-3.7	Oil (WTI)	47.52	-4.7
EUR	1.1367	+0.2	1.1337	1.1402	NOK	8.714	+0.8	Nasdaq	6,832	+1.2	-2.3	Gold	1248.3	+0.1
GBP	1.2647	+0.2	1.2617	1.2706	HKD	7.819	+0.1	Stoxx 50	3,040	-0.8	-15.8	HRC steel	751.0	+0.1
JPY	112.55	-0.2	112.25	112.66	CNY	6.895	-0.0	FTSE	6,702	-1.1	-11.1	CRB	175.4	-1.4
CAD	1.3475	+0.5			SGD	1.372	-0.1	DAX	10,741	-0.3	-19.3	Wheat Chic.	539.5	-0.4
NZD/AUD	0.9550	+0.7			IDR	14,501	-0.5	CAC 40	4,754	-1.1	-12.3	Sugar	12.29	-1.5
NZD/EUR	0.6027	+0.5			THB	32.74	-0.1	Nikkei	21,115	-1.8	-7.7	Cotton	77.84	-0.9
NZD/GBP	0.5417	+0.4			KRW	1,130	-0.1	Shanghai	2,577	-0.8	-21.8	Coffee	99.5	-0.6
NZD/JPY	77.11	+0.5			TWD	30.84	-0.1	ASX 200	5,589	-1.2	-7.9	WM powder	2830.0	-0.2
NZD/CAD	0.9232	+1.2			PHP	53.05	+0.0	NZX 50	8,688	-0.7	3.4	Australian Futures		
NZ TWI	75.08	+0.6										3 year bond	98.115	0.02
												10 year bond	97.60	0.03
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates				Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	2.25	2.80	2.80	2.86	USD	2.83	-0.03	NZGB 6 05/15/21	1.76	-0.01	1 year	2.00	-0.01	
AUD	1.50	2.03	1.95	2.64	AUD	2.42	-0.03	NZGB 5 1/2 04/15/23	1.92	-0.02	2 year	2.06	-0.01	
NZD	1.75	1.97	2.06	2.76	NZD	2.29	-0.01	NZGB 2 3/4 04/15/25	2.12	-0.01	5 year	2.34	-0.00	
EUR	0.00	0.06	-0.15	0.85	GER	0.24	-0.01	NZGB 4 1/2 04/15/27	2.29	-0.01	7 year	2.53	-0.01	
GBP	0.75	0.91	1.16	1.47	GBP	1.28	0.01	NZGB 3 04/20/29	2.45	-0.01	10 year	2.76	-0.00	
JPY	-0.07	-0.11	0.00	0.19	JPY	0.03	-0.02	NZGB 3 1/2 04/14/33	2.63	-0.01	15 year	3.01	-0.00	
CAD	1.75	1.17	2.32	2.54	CAD	2.02	-0.02	NZGB 2 3/4 04/15/37	2.80	-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 06:48

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

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.