

19 November 2018



Events Round-Up

NZ: BNZ manufacturing PMI, Oct: 53.5 vs. 51.7 prev.

US: Industrial production (m/m%), Oct: 0.1 vs. 0.2 exp.

Good Morning

The USD and US Treasury yields fell after comments from Fed Chair Clarida were interpreted as dovish. That helped the NZD to continue to power on up, and supported at the end of the week by further optimism on US-China trade talks after some positive comments by President Trump.

The USD was weaker across the board on Friday, with the key USD indices down 0.5-0.6% for the day. The market, rightly or wrongly, seemed to take a dovish interpretation of comments made by newly installed US Fed vice-chair Clarida in a CNBC interview. He noted the slowing global economy and that this was something the Fed needed to pay attention to. He added that policy was getting closer to neutral and therefore it was appropriate to shift the emphasis on further policy rates hikes towards being more data dependent.

On any other day, the market might have shrugged off these comments, but it seems that the market was looking for an excuse to take US rates and the USD lower. On the same day, an editorial in the WSJ entitled "America Is Not An Island" outlined the case for US policymakers to take heed of the global backdrop, noting the contraction in Q3 GDP for Germany and Japan and the recent slowdown in China's economy. To that it added the political risks in Europe across Germany, Italy and the UK with Brexit. The editorial suggested that both President Trump and Fed Chair Powell should recognise the global backdrop when setting policy. Later in the session, in a WSJ interview, Fed President Harker (non-voter in 2018) seemed to back Clarida's view after saying "At this point, I'm not convinced a December rate move is the right move...but I need to watch the data over the next few weeks".

The vibe around US-China trade, which improved earlier in the week, took another leap forward after Trump's comments in afternoon NY trading, where he expressed some optimism about doing a deal. He said that China had responded to his demands – a long list that was largely complete – but was "missing four or five big issues...it is just not acceptable to me yet". He indicated that he might not proceed with a threat to impose additional tariffs, "hopefully, we will make a deal", but

further tariffs would apply if a deal isn't reached.

President Xi and Trump will meet at the G20 summit at the end of the month and while a deal isn't expected to be reached, there is some hope that a ceasefire in the trade war takes place as negotiations continue.

At the ASEAN summit over the weekend, the US and China (represented by VP Pence and President Xi) exchanged a series of verbal blows, which should moderate any optimism that the two countries are getting close to making peace with each other on trade and security matters. This might set the tone as the new week begins.

The NZD closed the week just under 0.6880, reaching a level not seen since June. Another good day for the Kiwi took its gain for the week above 2% and the currency is now up around 7% from the early-October low. A number of key resistance levels have been broken on the way up and a revisit of the 0.70 handle before the end of the year now doesn't look like too much of a stretch from here on the charts. The outlook for the NZD over the rest of the year will be highly sensitive to how US-China trade talks develop. If nothing really has changed and further tariffs take effect from 1 January, then it would be easy to see the NZD reverse course. However, a ceasefire would provide further support to the NZD.

US Treasury rates were 5-6bps lower across the curve, with the 10-year rate closing at 3.06%, down 12bps for the week. While the market continued to price in a high chance of a December rate hike by the Fed, only about 1½ rate hikes are now priced into the curve for 2019, compared to more than 2 full hikes just a week ago.

NZD gains were more modest on the crosses. AUD closed the week around 0.7330, keeping NZD/AUD flat around 0.9380. For a nice change, Brexit didn't dominate the headlines. UK PM May reshuffled her Ministerial team after the series of resignations a day earlier, promoting her Tory allies. There was no immediate leadership challenge with not enough numbers – yet – to trigger a vote of no-confidence in May's leadership. We'll see if anything develops this week. GBP was less volatile than usual and ended the week at 1.2830. The outperformance of the NZD saw the NZD/GBP cross close the week up 0.2% at a fresh high of 0.5360.

The soft USD saw EUR climb up to 1.1415 while lower US rates gave support to the yen, with USD/JPY down 0.7% on the day to 112.80.

The calendar for the day ahead is only peppered with

second-tier releases. After the market's dovish interpretation by recent Fed speakers, NY Fed President Williams' comments tomorrow morning NZ time take on an added significance.

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		Period	Cons.	Prev.	NZT
NZ	Performance of services index	Oct		53.9	10:30
NZ	PPI output (q/q%)	Q3		0.9	10:45
US	NAHB housing market index	Nov	67	68	04:00
US	Fed's Williams speaks in moderated Q&A				04:45

Source: Bloomberg, BNZ.

Coming Up

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6878	+0.7	0.6799	0.6884	CHF	0.9999	-0.7	S&P 500	2,736	+0.2	6.1	Oil (Brent)	66.76	+0.2
AUD	0.7332	+0.8	0.7250	0.7338	SEK	9.003	-0.7	Dow	25,413	+0.5	8.8	Oil (WTI)	56.46	+0.0
EUR	1.1415	+0.8	1.1322	1.1420	NOK	8.441	-0.6	Nasdaq	7,248	-0.2	6.9	Gold	1223.0	+0.7
GBP	1.2834	+0.5	1.2777	1.2878	HKD	7.830	+0.0	Stoxx 50	3,181	-0.3	-10.3	HRC steel	800.0	-0.1
JPY	112.83	-0.7	112.64	113.45	CNY	6.938	-0.0	FTSE	7,014	-0.3	-5.0	CRB	187.3	+0.9
CAD	1.3148	-0.2			SGD	1.373	-0.1	DAX	11,341	-0.1	-12.7	Wheat Chic.	515.3	+0.1
NZD/AUD	0.9381	-0.1			IDR	14,612	-0.4	CAC 40	5,025	-1.2	-5.5	Sugar	12.69	+0.3
NZD/EUR	0.6025	-0.1			THB	32.84	-0.4	Nikkei	21,680	-0.6	-3.2	Cotton	76.12	-0.2
NZD/GBP	0.5359	+0.2			KRW	1,129	-0.0	Shanghai	2,679	+0.4	-20.8	Coffee	116.3	+2.2
NZD/JPY	77.60	-0.0			TWD	30.89	+0.1	ASX 200	5,731	-0.1	-3.8	WM powder	2675.0	-0.2
NZD/CAD	0.9043	+0.4			PHP	52.71	-0.1	NZX 50	8,810	-0.2	9.3	Australian Futures		
NZ TWI	75.11	+0.4										3 year bond	97.84	0.00
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	2.64	2.99	3.13	USD	3.06	-0.05	NZGB 6 05/15/21	1.92	-0.02	1 year	2.05	0.01	
AUD	1.50	1.94	2.09	2.87	AUD	2.68	-0.04	NZGB 5 1/2 04/15/23	2.16	-0.03	2 year	2.18	-0.01	
NZD	1.75	2.00	2.18	3.02	NZD	2.57	-0.04	NZGB 2 3/4 04/15/25	2.39	-0.03	5 year	2.57	-0.03	
EUR	0.00	0.06	-0.13	0.94	GER	0.37	0.01	NZGB 4 1/2 04/15/27	2.57	-0.04	7 year	2.79	-0.03	
GBP	0.75	0.89	1.15	1.59	GBP	1.41	0.04	NZGB 3 04/20/29	2.71	-0.04	10 year	3.02	-0.03	
JPY	-0.07	-0.11	0.04	0.28	JPY	0.10	-0.01	NZGB 3 1/2 04/14/33	2.89	-0.04	15 year	3.27	-0.04	
CAD	1.75	1.17	2.57	2.81	CAD	2.36	-0.03	NZGB 2 3/4 04/15/37	3.02	-0.04				

* 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: NY close Sat morning

Source: Bloomberg

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