Events Round-Up

NZ: Terms of trade index, q/q, %, Q3: 0.8 vs. -2.1 prev.
AU: Private capital expenditure, Q3: -4.0 vs. -3.3 exp.
CH: Manufacturing PMI, Nov: 51.7 vs. 51.0 exp.
CH: Caixin Manufacturing PMI, Nov: 50.9 vs. 51.0 exp.
AU: Commodity index, SDR, y/y%, Nov: 32.1 vs. 16 prev.
UK: Markit manufacturing PMI, Nov: 53.4 vs. 54.4 exp.
EZ: Unemployment rate, Oct: 9.8 vs. 10.0 exp.
CA: RBC Manufacturing PMI, Nov: 51.5 vs. 51.1 exp.
US: Markit manufacturing PMI, Nov F: 54.1 vs. 53.9 exp.
US: ISM Manufacturing, Nov: 53.2 vs. 52.5 exp.

Currencies

The USD ran out of steam overnight. The ‘oil-linked’ CAD and NOK have continued their outperformance. The NZD has been amongst the weaker performers over the past 24-hours.

The global oil sector remained in the driving seat overnight. A further 4% rise in WTI oil price futures lent itself to higher US yields, the outperformance of energy sectors within the equity market and outperformance of ‘oil-linked’ currencies. For example, while the S&P500 is currently down 0.2% the energy sector is up 2%. The NOK and CAD have both gained almost 1% against the USD since yesterday morning.

Despite the further rise in US yields overnight, the USD could not maintain the previous day’s upward momentum. The USD index sits a little lower this morning. Even the USD/JPY has failed to make further gains. It remains at a similar level to yesterday morning, around 114.50.

The GBP/USD pushed higher in the early hours of this morning, subsequently giving back some of the gain. The initial surge appeared to coincide with comments from ‘Brexit’ secretary, Davis, that the UK would consider making contributions to the EU in order to secure the best access to the single market. The GBP/USD touched highs near 1.2700 in the early hours of this morning, its highest level since early-October. It is a reminder of how sensitive the currency remains to the twists and turns of what will be a protracted ‘Brexit’ process.

The AUD/USD experienced a brief dip alongside the release of softer than expected AU capex data yesterday. However, it didn’t last long. Subsequently it has traded a range between 0.7370 and 0.7420. Currently it sits at 0.7400. AU retail sales data will be in focus today.

The NZD/AUD has given back all of yesterday’s outperformance. It was again unable to break through resistance near 0.9600 in the early hours of this morning. It has subsequently dropped back to trade at 0.9540.

The NZD/USD has dribbled lower since last evening. From 0.7100, it now trades very close to the 200-day moving average at 0.7045. There is little scheduled on the domestic agenda today to move the currency. This evening US payrolls will be released, but may lack their usual influence (see Interest Rates).

Interest Rates

Higher NZ yields and a steeper curve yesterday. Overnight, the rise in core offshore yields continued. US 10-year yields now trade at 2.46%.

Unsurprisingly, NZ long-dated yields followed their offshore counterparts higher yesterday. NZ 10-year swap closed up a further 7bps, at 3.33%. This is back toward the highs of the range of the past few weeks. US yields remain the dominant driver. After a continued rise in US Treasury yields overnight, we anticipate further steepening of the NZ curve today.

The NZ 2-10s curve now sits at 105bps. We continue to target a move to 125bps in the early part of next year. We see long yields rising further but short-end yields remaining contained while the RBNZ keeps the OCR at 1.75% for a prolonged period.

Overnight, US yields pushed higher as global oil price continued its post-OPEC meeting surge. WTI oil price futures are up a further 4%. This takes prices back around USD51.50/barrel, up 15% since earlier this week. The top of the range since mid-year is a little higher, around USD53.70. US 10-year yields pushed up from 2.38% to 2.46%. This is their highest level since July last year. Treasuries may find support as yields approach the mid-2015 highs near 2.50%.

Yesterday, data showed AU private capex was weaker than expected in Q3, at -4%q/q. The unwinding of the mining investment boom continues to weigh on capex data and plans. Our NAB colleagues believe it is unlikely the data hold too much importance for the RBA’s actions in the near-term. The Bank understands that it is not the level of interest rates that is holding back investment.

However, the overall lack of momentum in capital expenditure should reinforce views that the RBA is unlikely to follow the Fed in raising rates any time soon. The risk remains for further RBA rate cuts. The market
currently prices less than a 20% chance of a further RBA cut in the year ahead.

Tonight, US payrolls data will be released. However, they will likely hold less potency than usual as the market is already fully pricing a Fed hike on 14 December. The results would likely need to be outlandishly weak for the market to seriously question this pricing (and even then might dismiss a weak print as a statistical outlier). The average hourly earnings data may gain the most attention, as the market contemplates the medium-term trajectory for the Fed funds rate.

Coming Up

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<th>Period</th>
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<th>Prev.</th>
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<tr>
<td>NZ Value of all buildings, s.a., q/q, %</td>
<td>Q3</td>
<td>2.2</td>
<td>5.5</td>
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<td>AU Retail sales, m/m, %</td>
<td>Oct</td>
<td>0.3</td>
<td>0.6</td>
<td>13.30</td>
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<td>UK Markit construction PMI</td>
<td>Nov</td>
<td>52.2</td>
<td>52.6</td>
<td>22.30</td>
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<tr>
<td>US Nonfarm payrolls, k</td>
<td>Nov</td>
<td>180</td>
<td>161</td>
<td>2.30</td>
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<tr>
<td>US Unemployment rate, %</td>
<td>Nov</td>
<td>4.9</td>
<td>4.9</td>
<td>2.30</td>
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<tr>
<td>US Average hourly earnings, y/y, %</td>
<td>Nov</td>
<td>0.2</td>
<td>0.4</td>
<td>2.30</td>
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<td>CA Unemployment rate, %</td>
<td>Nov</td>
<td>7.0</td>
<td>7.0</td>
<td>2.30</td>
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<td>US Fed’s Brainard speaks</td>
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<td>2.45</td>
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<td>US Fed’s Tarullo speaks</td>
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Source: Bloomberg, BNZ
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