

23 January 2019



Events Round-Up

NZ: Perform. of services index, Dec: 53.0 vs. 53.4 prev.

UK: Unemployment rate (%), Nov: 4.0 vs. 4.1 exp.

UK: Avg weekly earnings (y/y%), Nov: 3.4 vs. 3.3 exp.

GE: ZEW survey expectations. Jan: -15.0 vs. -18.5 exp.

US: Existing home sales (m), Dec: 4.99 vs. 5.24 exp.

Good Morning

Market sentiment has deteriorated, with global equities and bond yields lower. Most major currencies haven't showed a lot of movement. Commodity currencies are slightly weaker, except the NZD which has managed to hold its ground, while GBP is the strongest of the majors.

After the run of stronger equities and higher US Treasury rates last week, things have reversed course. US equities are currently down 1.3% while the 10-year rate is down 4bps to 2.74%. While a breather in the risk-on rally seen this year to date is understandable, the reversal of course hasn't been helped by yesterday's downgrading of the economic outlook by the IMF, some softer US earnings reports from household names like Johnson & Johnson and Black & Decker, the ongoing US government shutdown with no resolution in sight, and a poor read on US existing home sales, which fell 6.4% to their lowest level in more than three years.

The US-China trade war remains front of mind as well with Trump tweeting yesterday for China to "stop playing around" and "do a real deal". The WSJ reports that in a joint report to the US Trade Representative, the US Chamber of Commerce and the American Chamber of Commerce in China say Beijing's ambitious plan to become a global technology leader is being widely implemented, casting doubt on efforts by Chinese officials to play down its significance.

Currency movements overnight have been insignificant apart from further strength in GBP, supported by a strong labour market report and increasing optimism that a no-deal Brexit can be ruled out. The labour market report showed strong employment leading to a fall in the unemployment rate to 4.0% and the strongest wage growth since the GFC.

On Brexit, there are continuing signs that the UK Parliament will be more in control of the Brexit process with a number of amendments proposed by various MPs,

including staying in a customs union with the EU, a second referendum on Brexit, an Article 50 extension which would significantly delay any Brexit outcome, and ruling out of a no-deal outcome. The speaker will decide which amendments can go to a vote. The FT reports that the Cooper-Boles amendment to stop a no-deal Brexit looks to have a good chance of being selected next week and voted on in early February. GBP is up 0.6% to 1.2965 while NZD/GBP has slipped below 0.52.

The NZD has been range-bound and trades this morning at 0.6730, the same level as at this time yesterday, recovering from a small dip late yesterday. In the risk-off environment, that's not a bad showing, with modest outperformance against the other commodity currencies, with a 3% fall in oil prices not helping AUD and CAD. This sees NZD/AUD up slightly to 0.9430 and NZD/CAD up slightly to 0.8970.

The local focus today will be the Q4 CPI report. Headline CPI inflation for the quarter should be very soft – close to flat – weighed down by much lower petrol prices and seasonal factors. But we expect core inflation to show signs of holding up. Indeed, the risk is that non-tradeables inflation overshoots the RBNZ's estimate of 0.4% q/q. NZ rates were little changed yesterday. Given the market is pricing a significant chance of a rate cut this year (including a 25% chance by May), we think the market is more vulnerable to a stronger than expected CPI release (on the core measures). Even if the CPI release is weaker than expected, we think the hurdle for cuts is high, given the tightness in the labour market.

Later today, the Bank of Japan's policy meeting should pass with little market reaction, with a likely downgrade in the inflation outlook keeping the outlook for policy super-easy for an extended period, and the lack of palatable options preventing any further policy easing. JPY has been supported by the risk-off tone that sees USD/JPY and NZD/JPY both down around 0.3% to 109.30 and 73.6 respectively.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ CPI (q/q%)	Q4	0.0	0.9	10:45
NZ CPI (y/y%)	Q4	1.8	1.9	10:45
JN BOJ 10-yr yield target (%)	Jan	0.0	0.0	
CA Retail sales (m/m%)	Nov	-0.6	0.3	02:30
EC Consumer Confidence	Jan	-6.5	-6.2	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	0.6730	-0.0	0.6707	0.6733	CHF	0.9968	-0.0			S&P 500	2,634	-1.4	-6.3	Oil (Brent)	61.04	-2.7
AUD	0.7137	-0.3	0.7121	0.7142	SEK	9.020	+0.0			Dow	24,423	-1.1	-6.3	Oil (WTI)	52.18	-3.0
EUR	1.1371	+0.1	1.1336	1.1371	NOK	8.591	+0.3			Nasdaq	7,053	-1.5	-3.9	Gold	1283.1	+0.0
GBP	1.2967	+0.6	1.2856	1.2971	HKD	7.845	+0.0			Stoxx 50	3,113	-0.4	-15.1	HRC steel	717.0	-0.1
JPY	109.33	-0.3	109.29	109.51	CNY	6.808	+0.1			FTSE	6,901	-1.0	-10.6	CRB	178.8	-1.9
CAD	1.3334	+0.3			SGD	1.359	+0.0			DAX	11,090	-0.4	-17.6	Wheat Chic.	528.5	+1.0
NZD/AUD	0.9430	+0.3			IDR	14,220	-0.0			CAC 40	4,848	-0.3	-12.5	Sugar	12.90	-1.0
NZD/EUR	0.5919	-0.1			THB	31.78	-0.1			Nikkei	20,623	-0.5	-14.5	Cotton	72.97	-1.2
NZD/GBP	0.5190	-0.6			KRW	1,131	+0.3			Shanghai	2,580	-1.2	-27.3	Coffee	103.3	-1.6
NZD/JPY	73.58	-0.3			TWD	30.90	+0.1			ASX 200	5,859	-0.5	-3.0	WM powder	2870.0	-1.0
NZD/CAD	0.8974	+0.3			PHP	52.91	+0.2			NZX 50	9,115	-0.4	9.7	Australian Futures		
NZ TWI	73.29	+0.0												3 year bond	98.23	0.03
														10 year bond	97.71	0.02
Interest Rates																
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields						
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last		Last				
USD	2.50	2.77	2.74	2.78	USD	2.74	-0.04	NZGB 6 05/15/21	1.69	0.00	1 year	1.90	0.00			
AUD	1.50	2.08	1.92	2.56	AUD	2.30	-0.01	NZGB 5 1/2 04/15/23	1.80	0.00	2 year	1.92	0.00			
NZD	1.75	1.88	1.91	2.61	NZD	2.14	0.00	NZGB 2 3/4 04/15/25	1.97	0.01	5 year	2.15	-0.00			
EUR	0.00	0.06	-0.15	0.78	GER	0.24	-0.02	NZGB 4 1/2 04/15/27	2.14	0.00	7 year	2.37	0.00			
GBP	0.75	0.92	1.15	1.49	GBP	1.32	0.00	NZGB 3 04/20/29	2.32	0.01	10 year	2.62	0.00			
JPY	-0.07	-0.08	-0.01	0.17	JPY	0.00	-0.01	NZGB 3 1/2 04/14/33	2.50	0.01	15 year	2.88	0.00			
CAD	1.75	1.17	2.28	2.51	CAD	1.98	-0.04	NZGB 2 3/4 04/15/37	2.67	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 06:51

Source: Bloomberg

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