

23 November 2018



## Events Round-Up

NZ: Net migration, Oct: 4660 vs. 4630 prev.

JN: CPI ex fresh food (y/y%), Oct: 1.0 vs. 1.0 exp.

EC: Consumer confidence, Nov: -3.9 vs. -3.0 exp.

## Good Morning

Markets are quiet with the US on holiday. The only notable movement has been strength in GBP after a draft UK and EU political declaration was published. The NZD was modestly weaker in local trading yesterday and has sustained that move overnight.

Yesterday we saw some more positive news on US-China relations. The South China Morning Post reported that Trump's trade policy advisor Navarro (author of "Death by China" before joining the White House) would not be attending the Xi-Trump meeting at the G20 summit at the end of the month. The report added to optimism that US-China trade talks can make some progress and perhaps end up with a ceasefire being announced, with a possible halt to further import tariffs for as long as negotiations continue. As a show of goodwill, the Chinese government allowed US warships to anchor in Hong Kong after barring them back in September.

Normally we would have expected reports like these to have boosted the NZD and AUD. Instead, both currencies drifted down during local trading hours. The NZD slipped from 0.6840 at this time yesterday to around 0.6810 at the local close. Since then it has tracked sideways. Looking back at the last three weeks, we've seen a series of positive headlines on US-China relations, including the countries talking about trade with each other again and Trump talking up the relationship and hoping to make a deal. The NZD is already up 4½% month-to-date, with this positive trade vibe a key driver (alongside some more positive domestic news) so perhaps it is the case that something more concrete now is required to push the NZD higher. The Xi-Trump summit at the end of the month will be important in this regard.

The NZD is lower on all the crosses compared to this time yesterday, although overnight movements have been modest, with most of the fall occurring during local hours. GBP has been the best performer, up 0.8% to 1.2875, after peaking just under 1.2930 overnight. NZD/GBP is now back below 0.53.

GBP was boosted after publication of a political declaration on a future UK-EU relationship. The UK and EU

have agreed in principle a draft that pledges an "ambitious, broad, deep and flexible partnership". Unlike last week's Withdrawal Agreement which is legally binding, this political declaration – consider it an executive summary version of the dense legal 500+ page agreement – is not. Bloomberg reports that the draft provides a few concessions, pointing the way towards easy trade in goods – hinting vaguely that the UK will be able to pursue its own trade policy and also stop free movement of people – and offers a way out of the Irish backstop.

This morning PM May has been trying to sell the deal to Parliament but is meeting a lot of resistance and it remains the case that any deal is still unlikely get through Parliament, with disapproval of the agreement within May's own Conservative party and the opposing Labour party unlikely to support the deal either. After EU leaders are expected to rubber stamp this political declaration alongside the Withdrawal Agreement EU at a summit on Sunday, the "meaningful vote" in the UK Parliament is likely in the second week in December. It would be far too optimistic to declare victory on a deal yet.

The strong GBP has spilled over modestly into EUR, which is back up through 1.14. In economic news, euro-area consumer confidence fell markedly to minus 3.9, the lowest since March 2017. There have been conflicting news reports on Italy's budget standoff against the European Commission. One paper reported that Deputy Premier Di Maio saw "modifications" to the budget possible during the Parliamentary process. Another newspaper reported that Di Maio alongside Salvini would not budge on the budget, "We're not changing a comma of the budget, we're going ahead without concessions...if we yield now on the budget the whole structure of our government collapses".

NZ rates were down slightly across the curve yesterday. NZ government bonds continue to see strong demand at tenders in a market where supply is, and will become, more constrained. Yields were 3bps lower across the government curve.

Should be quiet trading conditions today ahead of the weekend. Tonight sees the release of November flash PMIs for the euro area. After weak Q3 GDP data, the figures might give an indication of how much of the slowdown was temporary. Any further weakness here would raise some red flags about growth in the region ahead of the ECB's meeting next month.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	Markit manufacturing PMI	Nov	52.2	52.2	21:30
GE	Markit services PMI	Nov	54.5	54.7	21:30
EC	Markit manufacturing PMI	Nov	52.0	52.0	22:00
EC	Markit services PMI	Nov	53.6	53.7	22:00
CA	Retail sales ex auto (m/m%)	Sep	0.3	-0.4	02:30
CA	CPI (y/y%)	Oct	2.2	2.2	02:30
US	Markit manufacturing PMI	Nov	55.7	55.7	03:45
US	Markit services PMI	Nov	55.0	54.8	03:45

Source: Bloomberg, BNZ.

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day	% Year			Last	Net Day		
NZD	0.6813	-0.3	0.6789	0.6819	CHF	0.9950	+0.0	S&P 500	2,650	+0.3	2.0	Oil (Brent)	62.86	-1.0
AUD	0.7253	-0.1	0.7234	0.7261	SEK	9.042	-0.0	Dow	24,465	-0.0	4.0	Oil (WTI)	54.04	-1.1
EUR	1.1400	+0.1	1.1391	1.1434	NOK	8.536	+0.1	Nasdaq	6,972	+0.9	1.5	Gold	1227.8	-0.0
GBP	1.2871	+0.7	1.2773	1.2927	HKD	7.830	-0.0	Stoxx 50	3,127	-0.9	-12.2	HRC steel	803.0	+0.0
JPY	112.99	-0.1	112.89	113.08	CNY	6.932	+0.1	FTSE	6,960	-1.3	-6.2	CRB	185.0	+0.7
CAD	1.3200	-0.2			SGD	1.373	-0.0	DAX	11,138	-0.9	-14.4	Wheat Chic.	506.8	-0.3
NZD/AUD	0.9393	-0.2			IDR	14,580	-0.2	CAC 40	4,938	+0.1	-7.7	Sugar	12.68	+1.8
NZD/EUR	0.5976	-0.4			THB	32.96	+0.2	Nikkei	21,647	+0.6	-3.9	Cotton	76.51	+1.6
NZD/GBP	0.5293	-1.0			KRW	1,129	-0.2	Shanghai	2,645	-0.2	-21.1	Coffee	114.1	-0.7
NZD/JPY	76.98	-0.4			TWD	30.90	+0.0	ASX 200	5,691	+0.9	-4.9	WMI powder	2675.0	+0.0
NZD/CAD	0.8993	-0.5			PHP	52.36	+0.1	NZX 50	8,703	+0.4	7.4	<b>Australian Futures</b>		
NZ TWI	74.56	-0.4										3 year bond	97.85	0.01
												10 year bond	97.31	0.02
<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		Last		
USD	2.25	2.68	3.01	3.12	USD	3.06	0.00	NZGB 6 05/15/21	1.88	-0.03	1 year	2.04	0.01	
AUD	1.50	1.94	2.07	2.87	AUD	2.66	-0.03	NZGB 5 1/2 04/15/23	2.13	-0.03	2 year	2.14	-0.01	
NZD	1.75	2.00	2.14	3.00	NZD	2.54	-0.03	NZGB 2 3/4 04/15/25	2.37	-0.03	5 year	2.52	-0.02	
EUR	0.00	0.06	-0.14	0.92	GER	0.37	-0.01	NZGB 4 1/2 04/15/27	2.54	-0.03	7 year	2.75	-0.02	
GBP	0.75	0.89	1.17	1.60	GBP	1.43	0.03	NZGB 3 04/20/29	2.68	-0.03	10 year	3.00	-0.01	
JPY	-0.07	-0.11	0.03	0.28	JPY	0.10	0.01	NZGB 3 1/2 04/14/33	2.86	-0.03	15 year	3.24	-0.01	
CAD	1.75	1.17	2.59	2.80	CAD	2.36	0.00	NZGB 2 3/4 04/15/37	2.99	-0.03				

\* 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: 06:54

Source: Bloomberg

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