

24 January 2019



Events Round-Up

NZ: CPI (q/q%), Q4: 0.1 vs. 0.0 exp.

NZ: CPI (y/y%), Q4: 1.9 vs. 1.8 exp.

JN: BOJ 10-yr yield target (%), Jan: 0.0 vs. 0.0 exp.

CA: Retail sales (m/m%), Nov: -0.9 vs. -0.6 exp.

EC: Consumer Confidence, Jan: -7.9 vs. -6.5 exp.

Good Morning

The NZD is stronger after yesterday's CPI report while GBP is stronger on reducing risks for a no-deal Brexit. Outside those moves, there is little other price action. US equities are retreating after a positive open.

The NZD is up 0.9% from this time yesterday, gaining after the stronger CPI report and pushing on higher in overnight trading. It hasn't breached 0.68, but has got close. NZ headline CPI inflation was soft for the quarter, largely as expected, but more importantly, key core measures showed higher inflationary pressure as we suspected would be the case. The average of the four Statistics NZ measures of core inflation that we monitor increased from 1.7% to 1.9% y/y, while non-tradeables inflation rose to a 4½-year high of 2.7% y/y. The RBNZ's estimate of core inflation based on the sectoral factor model remained unchanged at 1.7%, but there was enough supporting evidence to suggest that underlying inflationary remained on a higher plane.

The report came as a disappointment to those looking for evidence to support rate cuts this year.

The OIS curve shifted up by about 3bps through 2019 but the curve still depicts a rising chance of a rate cut as the year progresses, with the November meeting priced at 1.645% (previously 1.6175%). In the absence of a big global shock to the downside, we don't see the RBNZ cutting rates against a backdrop of underlying inflation pressure rising and a very tight labour market. The 2-year swap rate rose by "only" 1.5bps to 1.93%, with a lower BKBM rate remaining a drag, as the local banks look to be well-funded after some offshore issuance this year. The longer end of the curve was weighed down by global forces, which saw 10-year swap down 1bp to 2.61%.

As the top performing major currency over the past 24 hours, all the crosses are higher, with NZD/AUD back up through 0.95. NZD/JPY is up over 1% for the day to 74.3,

with JPY the weakest of the majors. Yesterday, the BoJ kept its policy settings unchanged and lowered its inflation forecasts yet again, with the annual figure for March 2020 slashed to 0.9%, or 0.6% once the government's initiative to cut education costs for young children is implemented. Inflation is expected to pick up to 1.4% the following year, still far from the 2% target, highlighting how policy will likely remain super-easy for some time. Governor Kuroda said the BOJ has plenty of unconventional policy measures left to choose from, "Our policy options have neither disappeared nor narrowed", but the reality is that there are no sensible means left to ease policy further otherwise the BoJ would be proceeding with them.

CAD was weaker after a soft retail sales report and some dovish comments by Bank of Canada Poloz. He said policy was data dependent and he was keeping a close eye on the weak housing market, global trade tensions and impact of lower oil prices – all negative forces, so hardly a signal that policy had a tightening bias.

NZD/GBP is trading around 0.52, down in overnight trading from the 0.5240 level after GBP was bid from the European open and has trended higher, reaching 1.3080, its highest level since early November. There are signs that the Labour party are increasingly likely to support a proposal to extend the 29 March Brexit deadline to avoid a no-deal exit while pro-Brexit Trade Secretary Fox hinted that he could live with a short extension. While an extension would have to be agreed by the EU, the signals are that it would agree as long as there was good reason. As Brexit risks continue to fade we expect further GBP strength over coming months.

US equities opened about 0.4% higher after some strong earnings reports including IBM and Procter and Gamble, but have since slipped into negative territory. The US 10-year tracked higher to just under 2.78% before reversing course and currently sitting on a touch at 2.75%.

In the day ahead, the Australian labour market report will be watched, with the unemployment rate expected to be steady at 5.1%. Key European PMI data are released tonight, with hope of signs of stabilisation after surprising to the downside through much of last year. The ECB is expected to keep policy guidance unchanged. If anything the message could come across as more dovish following recent data and the global backdrop.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Employment change (k)	Dec	18	37	13:30
AU	Unemployment rate (%)	Dec	5.1	5.1	13:30
GE	Markit manufacturing PMI	Jan	51.5	51.5	21:30
GE	Markit services PMI	Jan	52.1	51.8	21:30
EC	Markit manufacturing PMI	Jan	51.4	51.4	22:00
EC	Markit services PMI	Jan	51.5	51.2	22:00
EC	ECB deposit facility rate (%)	Jan	-0.4	-0.4	01:45
US	Markit manufacturing PMI	Jan	53.5	53.8	03:45
US	Markit services PMI	Jan	54.0	54.4	03:45

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	0.6792	+0.6	0.6766	0.6798	CHF	0.9947	-0.3	S&P 500	2,620	-0.5	-7.7	Oil (Brent)	60.65	-1.3
AUD	0.7143	+0.3	0.7124	0.7144	SEK	9.012	-0.2	Dow	24,450	+0.2	-6.7	Oil (WTI)	52.24	-1.4
EUR	1.1392	+0.3	1.1351	1.1394	NOK	8.572	-0.3	Nasdaq	6,993	-0.4	-6.3	Gold	1284.1	+0.1
GBP	1.3065	+0.9	1.2943	1.3081	HKD	7.846	+0.0	Stoxx 50	3,112	-0.0	-15.3	HRC steel	715.0	-0.3
JPY	109.48	+0.1	109.40	110.00	CNY	6.792	-0.2	FTSE	6,843	-0.8	-11.5	CRB	178.3	-0.4
CAD	1.3348	-0.1			SGD	1.359	-0.1	DAX	11,072	-0.2	-18.3	Wheat Chic.	529.5	+0.5
NZD/AUD	0.9509	+0.3			IDR	14,188	-0.2	CAC 40	4,840	-0.2	-12.6	Sugar	12.99	+0.5
NZD/EUR	0.5962	+0.3			THB	31.71	-0.2	Nikkei	20,594	-0.1	-14.0	Cotton	73.79	+0.9
NZD/GBP	0.5199	-0.2			KRW	1,127	-0.3	Shanghai	2,581	+0.1	-27.5	Coffee	103.9	+0.5
NZD/JPY	74.36	+0.7			TWD	30.89	-0.0	ASX 200	5,844	-0.3	-3.5	WM powder	2890.0	+0.2
NZD/CAD	0.9066	+0.5			PHP	52.72	-0.4	NZX 50	9,106	-0.1	9.4	Australian Futures		
NZ TWI	73.87	+0.4										3 year bond	98.23	0.00
												10 year bond	97.71	-0.01
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	2.50	2.78	2.74	2.78	USD	2.75	0.01	NZGB 6 05/15/21	1.71	0.02	1 year	1.90	0.01	
AUD	1.50	2.09	1.92	2.55	AUD	2.28	-0.02	NZGB 5 1/2 04/15/23	1.81	0.02	2 year	1.93	0.01	
NZD	1.75	1.88	1.93	2.61	NZD	2.15	0.02	NZGB 2 3/4 04/15/25	1.99	0.02	5 year	2.15	-0.00	
EUR	0.00	0.06	-0.16	0.76	GER	0.23	-0.01	NZGB 4 1/2 04/15/27	2.15	0.02	7 year	2.36	-0.01	
GBP	0.75	0.92	1.16	1.50	GBP	1.33	0.00	NZGB 3 04/20/29	2.34	0.01	10 year	2.61	-0.01	
JPY	-0.07	-0.08	-0.01	0.17	JPY	0.01	0.00	NZGB 3 1/2 04/14/33	2.51	0.01	15 year	2.87	-0.01	
CAD	1.75	1.17	2.28	2.50	CAD	1.98	0.01	NZGB 2 3/4 04/15/37	2.68	0.02				

* 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 06:54

Source: Bloomberg

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