

25 January 2019



Events Round-Up

AU: Employment change (k), Dec: 21.6 vs. 18.0 exp.
AU: Unemployment rate (%), Dec: 5.0 vs. 5.1 exp.
GE: Markit manufacturing PMI, Jan: 49.9 vs. 51.5 exp.
GE: Markit services PMI, Jan: 53.1 vs. 52.1 exp.
EC: Markit manufacturing PMI, Jan: 50.5 vs. 51.5 exp.
EC: Markit services PMI, Jan: 50.8 vs. 51.5 exp.
EC: ECB deposit facility rate (%), Jan: -0.4 vs. -0.4 exp.
US: Initial jobless claims (wk to 19 Jan): 199k vs 218k exp.
US: Markit manufacturing PMI, Jan: 54.9 vs. 53.5 exp.
US: Markit services PMI, Jan: 54.2 vs. 54.0 exp.

Good Morning

Soft euro-area PMI data and downside growth risks seen by the ECB have dragged down European rates and the euro, spilling over into lower US Treasury yields. Against that backdrop, the USD is broadly higher, while the AUD has underperformed after NAB raised mortgage rates.

Europe was the focus last night given the ECB meeting and key PMI data on the calendar. Both put downward pressure on euro area rates and EUR, with the latter falling to a fresh low for the year just below 1.13. Germany's 10 year Bund is down 4bps to 0.18%. The flash estimate for the euro-area PMI in January was weaker than expected, continuing its ominous decline. For the composite reading, weakness in France and other countries more than offset a pick-up in Germany, although the latter still showed a sub-50 reading for the manufacturing sector, with the rise reflecting a better services sector. Handelsblatt reports that the German government will cut its GDP forecast for 2019 to 1.0% next week, which is below the 1.3% estimate the IMF came out with earlier this week.

The ECB left policy and guidance unchanged, as expected, reiterating that rates would stay at present levels "through the summer" and that it will continue reinvesting proceeds from maturing bonds for "an extended period of time past the date" of its first rate increase. But President Draghi downgraded the economic outlook with risks to growth now to the downside, reflecting global trade tensions, Brexit and financial market volatility.

The US remains in a data void with the government shutdown preventing some key releases, but some are still being funded. US initial jobless claims surprisingly dropped to 199k last week despite the Federal government shutdown, its lowest level since 1969, although the seasonal factors at this time of year are tricky to estimate and the figures could bounce back strongly next week. On the US government shutdown there has been some movement in positioning, but it looks likely to continue for some time yet. The Senate will take its first votes in more than a month on reopening the government. But both a clean spending bill and President Donald Trump's proposal appear on course to fail. Pelosi on the Democrats side has previously said it wouldn't negotiate with the government closed but appears to be open to make a \$5+b border security offer, which is seen to be a big step.

On the US-China trade war, US Commerce Secretary Wilbur Ross said that "we're miles and miles from getting a resolution" although added that he sees a "fair chance we do get to a deal" eventually. The next move is for China's Liu and the US's Lighthizer to meet next week in Washington.

The USD has shown broadly based gains, although the gains for the various indices we monitor are modest at 0.3-0.5%. Falling European yields have spilled over into lower US Treasury rates, with the 10-year rate down 4bps to 2.70%.

Against a stronger USD backdrop, the NZD has slipped to 0.6765, after nudging over the 0.68 mark yesterday afternoon, seeing some spillover effect from the oscillating AUD. The AUD was bid higher to near 0.7170 after a decent employment report which showed the unemployment rate slipping to 5.0%, but subsequently reversed course after NAB increased floating mortgage rates by 12-16bps, following moves by the other major banks last year. This was seen to add to the chance of an RBA cut this year. A November rate cut is now priced at a 60% chance, up from 54%. The AUD has moved back below the 0.71 mark and NZD/AUD has pushed up to 0.9540. We remain positive for this cross as the list of worries is larger for Australia than NZ.

Yesterday NZ swap rates were down 1-2bps across the curve, helped along by lower Australian yields. The long end of the government curve underperformed, with some indigestion evident after a poor tender of 2037 government bonds, which showed a lower than average

bid-cover ratio and a long tail of winning bids. Historically low yields aren't helping here, while we think that inflation-linked bonds offer much better value.

The day ahead looks to be a quiet one, with few releases scheduled, not helped by the US government shutdown.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
JN	Tokyo CPI Ex-Fresh Food YoY	Jan	0.9	0.9	12:30
GE	IFO Business Climate	Jan	100.7	101.0	22:00
GE	IFO Expectations	Jan	97.1	97.3	22:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)				Other FX			Major Indices				Price				
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day			
NZD	0.6765	-0.3	0.6761	0.6789	CHF	0.9967	+0.2		S&P 500	2,637	-0.1	-7.1	Oil (Brent)	61.20	+0.1
AUD	0.7090	-0.7	0.7085	0.7123	SEK	9.095	+0.8		Dow	24,486	-0.4	-6.7	Oil (WTI)	53.17	+1.0
EUR	1.1301	-0.7	1.1297	1.1390	NOK	8.594	+0.3		Nasdaq	7,045	+0.3	-5.0	Gold	1279.1	-0.4
GBP	1.3024	-0.3	1.3012	1.3080	HKD	7.846	+0.0		Stoxx 50	3,126	+0.5	-14.2	HRC steel	716.0	+0.0
JPY	109.65	+0.0	109.42	109.80	CNY	6.789	-0.1		FTSE	6,819	-0.3	-10.8	CRB	179.3	+0.4
CAD	1.3352	+0.1			SGD	1.361	+0.2		DAX	11,130	+0.5	-17.0	Wheat Chic.	530.0	-0.3
NZD/AUD	0.9542	+0.4			IDR	14,170	-0.1		CAC 40	4,872	+0.2	-11.3	Sugar	13.00	+0.2
NZD/EUR	0.5986	+0.4			THB	31.70	+0.0		Nikkei	20,575	-0.1	-13.1	Cotton	73.13	-0.5
NZD/GBP	0.5194	+0.0			KRW	1,129	+0.1		Shanghai	2,592	+0.4	-27.0	Coffee	105.6	+2.1
NZD/JPY	74.18	-0.3			TWD	30.89	-0.0		ASX 200	5,866	+0.4	-3.0	WM powder	2890.0	+0.2
NZD/CAD	0.9033	-0.3			PHP	52.87	+0.3		NZX 50	9,109	+0.0	8.8	Australian Futures		
NZ TWI	73.77	-0.1											3 year bond	98.285	0.06
													10 year bond	97.78	0.07
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				
USD	2.50	2.77	2.71	2.74	USD	2.70	-0.04	NZGB 6 05/15/21	1.71	0.00	1 year	1.90	0.00		
AUD	1.50	2.08	1.88	2.50	AUD	2.27	-0.01	NZGB 5 1/2 04/15/23	1.80	-0.01	2 year	1.92	-0.01		
NZD	1.75	1.88	1.92	2.58	NZD	2.15	0.00	NZGB 2 3/4 04/15/25	1.99	-0.01	5 year	2.14	-0.01		
EUR	0.00	0.06	-0.16	0.72	GER	0.18	-0.05	NZGB 4 1/2 04/15/27	2.15	0.00	7 year	2.35	-0.01		
GBP	0.75	0.92	1.14	1.44	GBP	1.27	-0.06	NZGB 3 04/20/29	2.34	0.00	10 year	2.59	-0.02		
JPY	-0.07	-0.09	-0.01	0.16	JPY	0.01	0.01	NZGB 3 1/2 04/14/33	2.52	0.01	15 year	2.85	-0.02		
CAD	1.75	1.17	2.25	2.46	CAD	1.93	-0.04	NZGB 2 3/4 04/15/37	2.70	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 06:55

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rate Strategist
+64 4 924 7653

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109

Gavin Friend

Senior Market Strategist
+44 20 7710 1588

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Alex Stanley

Senior Interest Rate Strategist
+61 2 9237 8154

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