Markets Today

26 November 2018

Events Round-Up

GE: Manufacturing PMI, Nov: 51.6 vs. 52.2 exp.

GE: Services PMI, Nov: 53.3 vs. 54.5 exp.

EC: Manufacturing PMI, Nov: 51.5 vs. 52 exp.

EC: Services PMI, Nov: 53.1 vs. 53.6 exp.

CA: CPI (y/y%), Oct: 2.4 vs. 2.2 exp.

CA: Core CPI – common measure (y/y%), Oct: 1.9 vs. 1.9 exp.

US: Manufacturing PMI, Nov: 55.4 vs. 55.7 exp.

US: Services PMI, Nov: 54.4 vs. 55 exp.

Good Morning

US equities ended the week on a soft note and US Treasury yields declined slightly, although volumes were light on a shortened trading day in the US. The EUR weakened, and the USD strengthened, after another batch of weaker than expected Eurozone PMI surveys. Meanwhile, oil prices remained in free-fall due to concerns about oversupply in the market.

The major market mover on Friday was oil. West Texas fell almost 8%, to just above $50 per barrel, while Brent was down more than 6% to $58.57. Both oil benchmarks have fallen by around one-third since their recent peaks in early October, mainly due to concerns about an oversupplied market. Earlier this month, the US unexpectedly announced certain countries would receive waivers to import oil from Iran. Meanwhile, production from Saudi Arabia and the US shale industry has reached record levels. While there are some growing concerns about the demand-side of the equation, the relative stability of industrial metals, such as copper, over the past two months, suggests that supply-driven concerns have been the main driver of oil prices (likely exacerbated by market positioning).

The WSJ reported on Friday that OPEC is considering what was described as a "quiet cut" to production at its meeting in early December. According to the report, OPEC plans to reaffirm its November 2016 production targets, which would be consistent with Saudi Arabia cutting production by around 1m barrels per day. This was seen as less likely to antagonize President Trump than an explicit announcement of a 1.4m barrels per day output cut by OPEC, but would achieve a similar result. The report didn't help oil prices on the day however.

Weakness in oil prices dragged down energy sector stocks and weighed on broader US equity markets. The S&P500 was down 0.7% on the day, leaving it down 3.6% on the week and slightly more than 10% from the recent peak in early October. The energy sector of the S&P500 was down 3.3%. Trading closed early in the US market on Friday and volumes were light, with many market participants taking a long weekend for Thanksgiving. The major focus this week will be the build-up to the Trump-Xi meeting at the G20 on Saturday, which will go a long way to defining the outlook for equities and other risk assets over the next few months. While a comprehensive agreement between the US and China is extremely unlikely, a 'ceasefire' (whereby Trump refrains from increasing tariffs from 10% to 25% on $250b Chinese imports on the 1st of January) would be supportive of equities, and risk assets more broadly. In a media briefing in Beijing, China's Vice Minister of Commerce Wang Shouwen said China "*hopes the Xi-Trump meeting goes smoothly,*" adding that "*Chinese and U.S. trade teams have been in close touch*".

US Treasury yields fell slightly, with the 10 year yield reaching 3.04%, near its lowest level since early October. The only economic data in the US was the Markit Manufacturing and Services PMIs. Both surveys were slightly weaker than expected, but remained at healthy levels overall (especially the manufacturing PMI). The market still attributes a very high chance to a December rate rise by the Fed but has scaled back its expectations for 2019 to 1.3 hikes. The market does not perceive the 10%+ fall in equities and large decline in oil prices as being sufficient to de-rail the Fed hiking cycle at this stage, which has kept Treasury yields fairly resilient so far (the 10 year yield has fallen only 20bps from its recent highs). There is plenty of Fed-speak to look out for this week though. Vice Chair Clarida speaks on Tuesday, Chair Powell on Wednesday, NY Fed President Williams is on Friday and the Fed minutes are on Thursday (where there may be discussion on its plans for the balance sheet).

In currencies, the USD was stronger across the board, with the narrow DXY index gaining 0.2% and ending the week just below the 97. The DXY is less than 1% off its mid-November highs. To some extent, the strength in the USD was again a by-product of weakness in other currencies. Another batch of disappointing PMI surveys in Europe triggered a fall in the EUR, which closed 0.6% lower on the day. Manufacturers cited subdued global demand, rising political and economic uncertainty, trade wars and sluggish car sales. There will be increased focus on ECB President Draghi's appearance in front of the European parliament tonight given the recent slow-down in European growth. The ECB's QE programme is set to finish up next month (although maturing bonds will still be reinvested) and we think the hurdle to extend the programme is exceptionally high. But it's possible the ECB could sound more cautious about the potential for rate rises later next year, at its meeting next month.

The GBP was also around 0.5% weaker on Friday, amid ongoing doubts around the chances of Theresa May getting her compromise Brexit deal through parliament. The EU has signed-off on the Brexit deal overnight, as expected, but the parliamentary arithmetic for passing the deal in the UK parliament is daunting. Labour, the Liberal Democrats, the SNP, the DUP and even a number of Conservative MPs (91 reportedly) have all indicated they will vote against it. The vote is likely to take place in December, and Theresa May has said she will campaign for the deal over the next few weeks. If the deal is rejected by parliament, it opens the door for a no-deal scenario, new elections, a second referendum or, possibly, a new agreement between the two sides. The Telegraph reported over the weekend that some cabinet ministers and EU diplomats were preparing for a secret "Plan B" in the event the deal is rejected by parliament, whereby the UK would stay within the EEA (a la Norway). At the press conference yesterday however, May and EC President Juncker were adamant that this was the only deal on the table and there was no better deal available. The GBP is likely to remain volatile for the next few weeks.

Amid a stronger USD and weakness in risk assets, the NZD fell 0.5% on Friday, closing the week at 0.6781. There is a fair amount of NZ-specific news to watch out for this week. Q3 retail sales is released today, where we are looking for a strong 1.1% increase in volumes (similar to consensus). The RBNZ Financial Stability Report is on Wednesday, where it could announce some loosening in LVR restrictions, and there may be some monetary policy-relevant comments from the Governor in the press conference and testimony to Parliament's Finance and Expenditure Committee. The ANZ Survey is on Thursday. Of course, the major upcoming event for the NZD is the Trump-Xi meeting next weekend though. NZ rates continued to drift lower on Friday, with swap rates down between 1 to 2bps. The 5 year swap is now at 2.5%, some 14bps below its recent highs after the blow-out NZ employment report, although most of that fall can be attributed to falling rates offshore.

nick.smyth@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Retail Sales Ex Inflation (q/q%)	3Q	1	1.1	10:45
AU	RBA's Lowe gives speech in Sydney				11:15
GE	IFO Expectations	Nov	99.2	99.8	22:00
EC	ECB's Draghi Speaks in European Parliament				03:00

Source: Bloomberg, BNZ.

Foreign Exchange

Indicative overnight ranges (*)

	Last	% Day	Low	High
NZD	0.6781	-0.5	0.6767	0.6820
AUD	0.7233	-0.3	0.7219	0.7255
EUR	1.1338	-0.6	1.1328	1.1421
GBP	1.2814	-0.5	1.2799	1.2883
JPY	112.96	+0.0	112.66	112.97
CAD	1.3238	+0.4		
NZD/AUD	0.9375	-0.2		
NZD/EUR	0.5981	+0.1		
NZD/GBP	0.5292	+0.0		
NZD/JPY	76.60	-0.5		
NZD/CAD	0.8977	-0.1		
NZ TWI	74.29	-0.3		

Other FX

	Last	% Day
CHF	0.9974	+0.2
SEK	9.093	+0.6
NOK	8.597	+0.7
HKD	7.826	-0.1
CNY	6.949	+0.2
SGD	1.375	+0.1
IDR	14,544	-0.2
THB	33.07	+0.3
KRW	1,130	+0.1
TWD	30.90	+0.0
PHP	52.49	+0.2

Equities

Major Indices

	Last	% Day	% Year
S&P 500	2,633	-0.7	1.2
Dow	24,286	-0.7	3.1
Nasdaq	6,939	-0.5	0.7
Stoxx 50	3,137	+0.3	-12.4
FTSE	6,953	-0.1	-6.2
DAX	11,193	+0.5	-14.3
CAC 40	4,947	+0.5	-8.2
Nikkei	21,647	+0.6	-3.9
Shanghai	2,579	-2.5	-23.1
ASX 200	5,716	+0.4	-4.5
NZX 50	8,701	-0.0	7.0

Commodities**

Price

	Last	Net Day
Oil (Brent)	58.80	-6.1
Oil (WTI)	50.42	-7.7
Gold	1223.2	-0.4
HRC steel	776.0	+0.0
CRB	179.6	-2.9
Wheat Chic.	507.3	+0.1
Sugar	12.47	-1.7
Cotton	74.92	-2.1
Coffee	111.0	-2.8
WM powder	2725.0	+1.9
Australian Futures		
3 year bond	97.87	0.02
10 year bond	97.35	0.03

Interest Rates

	Rates Cash	Rates 3Mth	Swap Yields 2 Yr	Swap Yields 10 Yr
USD	2.25	2.69	3.00	3.10
AUD	1.50	1.94	2.05	2.83
NZD	1.75	2.00	2.13	2.98
EUR	0.00	0.06	-0.14	0.90
GBP	0.75	0.89	1.15	1.56
JPY	-0.07	-0.11	0.03	0.28
CAD	1.75	1.17	2.58	2.79

Benchmark 10 Yr Bonds

	Last	Net Day
USD	3.04	-0.02
AUD	2.65	-0.01
NZD	2.52	-0.02
GER	0.34	-0.03
GBP	1.38	-0.05
JPY	0.10	0.00
CAD	2.34	-0.03

NZ Government Bonds

	Last	
NZGB 6 05/15/21	1.87	-0.01
NZGB 5 1/2 04/15/23	2.12	-0.01
NZGB 2 3/4 04/15/25	2.35	-0.02
NZGB 4 1/2 04/15/27	2.52	-0.02
NZGB 3 04/20/29	2.66	-0.02
NZGB 3 1/2 04/14/33	2.84	-0.02
NZGB 2 3/4 04/15/37	2.98	-0.02

NZ Swap Yields

	Last	
1 year	2.04	-0.00
2 year	2.13	-0.01
5 year	2.50	-0.02
7 year	2.73	-0.02
10 year	2.98	-0.02
15 year	3.23	-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 New York Close

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