

27 November 2018



Events Round-Up

NZ: Retail sales (q/q%), Q3: 0 vs. 1 exp.

GE: IFO business climate, Nov: 102 vs. 102.3 exp.

Good Morning

Risk appetite has improved overnight, with equities and US bond yields rising, and crude oil recovering some of its large falls on Friday. Signs of compromise from the Italian government over its budget plans helped boost sentiment, and led to a sharp drop in Italian yields. Currency moves have been modest as we await a barrage of Fed-speak over the remainder of the week and the Trump-Xi meeting at the G20 on the weekend.

After experiencing heavy falls last week, US equity markets have bounced back overnight. The S&P500 is up 0.9% while the NASDAQ is 1.2% higher. Risk appetite has been boosted by a 2% rise in oil prices, which has boosted energy sector stocks, and signs of compromise from the Italian government in its ongoing battle with the European Commission over its 2019 budget target. European equity markets were over 1% higher on the day, with the Italian index almost 3% higher. Broader risk sentiment remains cautious after the large falls in global equities during November, and ahead of the Trump-Xi meeting on trade. The US 10 year Treasury yield has increased from 3.04% to 3.07%.

Some more conciliatory comments from the Italian government set the stage for a sharp decline in Italian government bond yields – the 10 year yield is almost 15bps lower on the day – and a modest bounce in the EUR. Reuters reported that the government was considering reducing its budget deficit target for 2019 from 2.4% to 2%-2.1%. Later, Deputy PMs Salvini and Di Maio said they were prepared to adjust the deficit target, which the European Commission sees as in breach of its rules, by a modest amount (Salvini noted "*we're not getting stuck over 0.1 percent more or less*"). There are still substantial long-term risks around Italy (debt-to-GDP is over 130% and this will likely blow-out during the next recession), but there seems scope for some easing of market concerns in the short-term.

The news on Italy helped boost the EUR to 1.1380, although it has since given back most of its earlier gains, and currently sits around 1.1340. There was little impact from ECB President Draghi's comments to the European

parliament, in which he reaffirmed that the ECB expects to end its QE programme at the end of the year, despite the recent softening in European growth. Draghi said the slow-down in growth was normal, as the expansion matured, and noted that there were probably some temporary factors at play (such as the hit to the German auto industry from compliance to new emissions standards). The focus at the ECB's December meeting will be on whether it might extend its forward guidance (rates on hold "at least through the summer of 2019") or offer a new round of LTRO loans to banks. In economic news, the German IFO business survey was slightly weaker than expected, but it sits at much healthier levels than the PMIs.

Currency movements in the G10 have been very modest over the past 24 hours. The only currency to show much movement has been the Japanese yen, which is 0.5% weaker on the day, probably due to the firming in risk appetite. The AUD is unchanged, despite an almost 7% fall in iron ore futures.

The NZD is trading just under 0.68, close to where it ended last week. Q3 retail sales data yesterday was much weaker than expected, coming in at flat for the quarter, but there was only a short-lived impact on the NZD. The weakness in retail sales was in sharp contrast to the strength in electronic card transactions data over the same period, and we expect some bounce-back in Q4 spending. But we have marked down our Q3 GDP forecast slightly from 0.8% to 0.7%. NZ rates moved slightly lower again yesterday, following on from Friday night's moves in US Treasuries.

The focus in the day ahead will be the speech by Fed Vice Chair Clarida. It was Clarida's more cautious comments on the global growth outlook earlier this month which triggered speculation the Fed might "pause" its tightening cycle earlier this year, and helped push Treasury yields lower.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade Balance NZD	Oct	-850	-1560	10:45
US	Fed Vice Chairman Clarida Speaks in New York				02:30
US	Conf. Board Consumer Confidence	Nov	135.8	137.9	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	0.6787	+0.1	0.6782	0.6816	CHF	0.9981	+0.1			S&P 500	2,653	+0.8	2.0	Oil (Brent)	60.42	+2.7
AUD	0.7230	-0.0	0.7229	0.7276	SEK	9.089	-0.0			Dow	24,486	+0.8	3.9	Oil (WTI)	51.53	+2.2
EUR	1.1339	+0.0	1.1334	1.1384	NOK	8.585	-0.1			Nasdaq	7,015	+1.1	1.8	Gold	1222.4	-0.1
GBP	1.2814	+0.0	1.2805	1.2864	HKD	7.824	-0.0			Stoxx 50	3,173	+1.1	-11.4	HRC steel	778.0	+0.3
JPY	113.51	+0.5	113.17	113.61	CNY	6.941	-0.1			FTSE	7,036	+1.2	-5.0	CRB	179.8	+0.1
CAD	1.3239	+0.0			SGD	1.375	-0.0			DAX	11,355	+1.4	-13.1	Wheat Chic.	512.0	+0.9
NZD/AUD	0.9387	+0.1			IDR	14,475	-0.5			CAC 40	4,995	+1.3	-7.3	Sugar	12.50	+0.2
NZD/EUR	0.5986	+0.1			THB	33.00	-0.2			Nikkei	21,812	+0.8	-3.0	Cotton	76.61	+2.3
NZD/GBP	0.5297	+0.1			KRW	1,129	-0.1			Shanghai	2,576	-0.1	-22.5	Coffee	110.2	-0.7
NZD/JPY	77.04	+0.6			TWD	30.88	-0.1			ASX 200	5,672	-0.8	-5.3	WM powder	2725.0	+0.0
NZD/CAD	0.8985	+0.1			PHP	52.37	-0.2			NZX 50	8,662	-0.4	5.9	Australian Futures		
NZ TWI	74.41	+0.1												3 year bond	97.87	0.00
														10 year bond	97.34	0.00
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	2.25	2.69	3.02	3.13	USD	3.07	0.03	NZGB 6 05/15/21	1.86	-0.02	1 year	2.03	-0.01			
AUD	1.50	1.94	2.05	2.84	AUD	2.63	-0.02	NZGB 5 1/2 04/15/23	2.10	-0.02	2 year	2.13	-0.00			
NZD	1.75	1.99	2.12	2.96	NZD	2.50	-0.02	NZGB 2 3/4 04/15/25	2.34	-0.02	5 year	2.49	-0.02			
EUR	0.00	0.06	-0.14	0.91	GER	0.36	0.02	NZGB 4 1/2 04/15/27	2.50	-0.02	7 year	2.71	-0.02			
GBP	0.75	0.89	1.16	1.58	GBP	1.41	0.03	NZGB 3 04/20/29	2.65	-0.02	10 year	2.96	-0.02			
JPY	-0.07	-0.11	0.03	0.27	JPY	0.09	-0.01	NZGB 3 1/2 04/14/33	2.82	-0.02	15 year	3.21	-0.02			
CAD	1.75	1.17	2.59	2.81	CAD	2.36	0.02	NZGB 2 3/4 04/15/37	2.96	-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 06:51

Source: Bloomberg

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