

28 January 2019



Events Round-Up

JN: Tokyo CPI ex-fresh food (y/y%), Jan: 1.1 vs. 0.9 exp.

GE: IFO business climate, Jan: 99.1 vs. 100.7 exp.

GE: IFO expectations, Jan: 94.2 vs. 97.1 exp.

Good Morning

An air of optimism spread through markets on Friday night with a risk on vibe seeing equities, commodities, and bond rates higher. This despite more poor economic news out of Europe. The US dollar weakened.

A combination of developments seemed to lift the market's mood. Some positive signs on US-China trade discussions, additional policy tweaks from China, more positive Brexit smoke signals, and Trump signing a bill to reopen the US government all played a part.

The latter was promptly passed by the Senate and the House. It represents a back down from the President, as the bill contains no new money for his wall. Trump relented as the government shutdown's hurt on the economy continued to mount. Importantly, the legislation will only fund the government until February 15. So it is a temporary fix; the government may not remain open for long. Trump will continue his campaign to persuade lawmakers to provide funds for his wall and threatens another shutdown or emergency declaration if no progress is made. For the meantime though, it is a monkey off the market's back.

In other news, US Commerce Secretary, Wilbur Ross, revealed that up to 30 Chinese delegates will join VP He in Washington this week to discuss trade – taken as a positive sign. And earlier, the PBoC injected more money into the market via a targeted cut of the RRR.

It all added to an improvement in risk appetite, with the VIX 'fear' index closing near its lowest point since early December. Equity markets were generally higher through Asia, Europe, and the US. The Euro Stoxx 50 closed up 1.2%, while the S&P500 finished nearly 0.9% higher. The US dollar was weaker, with the broad BBDXY index down around 0.7%.

It all followed earlier positive Brexit smoke signals appearing on Friday with reports that the Irish DUP will back May's deal if the PM can get the backstop time limited. That would help the chances of the plan being

approved, even if there are still many hoops to jump through. In the least the latest news shows some movement as the DUP (and Brexitiers) try and avoid the alternatives of remain or a second referendum. The GBP jumped half a cent against the USD on Friday as the news broke, piercing through 1.3100 for the first time since early November. GBP extended up through 1.3200 as the US dollar weakened. GBP/USD opens this morning around 1.3180. The next vote early Wednesday morning (NZT) will be important for the GBP's performance this week.

EUR pushed above 1.1400 on Friday night as the US dollar weakened. The single currency gained despite weaker than expected German IFO data that added to a run of weak European data. The headline IFO index fell to 99.1 while its forward looking component dropped to 94.2 – its lowest level since 2012.

Commodity currencies performed well as you would expect in the risk on environment. NZD, AUD, and CAD all gained 1% or more against the US dollar.

NZD continued to make gains in the afterglow of last week's stronger than expected CPI data and as the US dollar weakened. NZD/JPY rose 1.1% to near 75.0 as the JPY underperformed in the pro-risk backdrop.

NZD/USD made a new year-to-date high on Friday night, briefly pushing above 0.6850 before easing back. The AUD shrugged off its dip late last week following NAB's interest rate increase, closing up 1.2% around 0.7180. NZD/AUD traded broadly sideways, consolidating recent gains and closing the week around 0.9530. Further upside is possible for the pair this week if Wednesday's Australian Q4 CPI data were to come in at the bottom end of market expectations as our NAB colleague's forecast suggest.

US treasury rates lifted between 4bps and 5bps across the curve out to 10 years. US 10 year treasury yields rose more than 4bps to close the week just shy of 2.76%. The positive risk tones provided enough grunt to more than unwind the ECB inspired dip towards 2.70% earlier in the week. We don't expect much movement from this week's FOMC meeting as it is likely to affirm the pause message from the recent round of Fed speakers.

Locally, rates edged lower on Friday driven by the longer end of the curve echoing offshore moves from the previous session. NZ 5-year swap rates closed near 2.115%, down 3bps on the day, while 2-year swap fell

around 2bps to end the week just above 1.90%. Some retracement is possible today given offshore moves.

Today is shaping up to be a very quiet start to the week with Auckland Anniversary Day providing a regional holiday while Australia Day is celebrated across the Tasman. It is a quiet local data week ahead with only a handful of monthly data reports. Any direction over the coming week or so is likely to come from offshore, with

little on the domestic calendar to excite markets until next Thursday's labour market data.

doug.steel@bnz.co.nz

Coming Up

Nothing of note.

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)					Major Indices				Price				
	Last	% Day	Low	High	Other FX	Last	% Day	% Year		Last	Net Day		
NZD	0.6839	+1.1	0.6747	0.6851	CHF	0.9939	-0.3		Oil (Brent)	61.64	+0.9		
AUD	0.7179	+1.2	0.7076	0.7185	SEK	9.049	-0.4		Oil (WTI)	53.69	+1.1		
EUR	1.1406	+0.9	1.1301	1.1417	NOK	8.513	-0.9		Gold	1298.1	+1.4		
GBP	1.3196	+1.0	1.3058	1.3217	HKD	7.846	-0.0		HRC steel	715.0	-0.1		
JPY	109.55	-0.1	109.46	109.95	CNY	6.748	-0.6		CRB	180.7	+0.8		
CAD	1.3218	-1.0			SGD	1.353	-0.6		Wheat Chic.	527.0	-0.2		
NZD/AUD	0.9526	-0.1			IDR	14,093	-0.5		Sugar	12.44	-4.2		
NZD/EUR	0.5996	+0.2			THB	31.52	-0.6		Cotton	74.13	+1.4		
NZD/GBP	0.5183	+0.1			KRW	1,121	-0.7		Coffee	106.8	+1.4		
NZD/JPY	74.92	+1.1			TWD	30.82	-0.2		W/M powder	2880.0	-0.3		
NZD/CAD	0.9040	+0.1			PHP	52.57	-0.6		Australian Futures				
NZ TWI	74.13	+0.5							3 year bond	98.27	-0.01		
									10 year bond	97.76	-0.01		
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	Net Day	Last	Net Day	Last	Net Day	
USD	2.50	2.75	2.75	2.79	USD	2.76	0.04	NZGB 6 05/15/21	1.70	-0.02	1 year	1.90	0.00
AUD	1.50	2.08	1.90	2.51	AUD	2.21	-0.06	NZGB 5 1/2 04/15/23	1.77	-0.03	2 year	1.90	-0.02
NZD	1.75	1.89	1.90	2.54	NZD	2.12	-0.03	NZGB 2 3/4 04/15/25	1.95	-0.03	5 year	2.12	-0.03
EUR	0.00	0.06	-0.15	0.74	GER	0.19	0.01	NZGB 4 1/2 04/15/27	2.12	-0.03	7 year	2.31	-0.03
GBP	0.75	0.92	1.15	1.49	GBP	1.31	0.04	NZGB 3 04/20/29	2.30	-0.04	10 year	2.56	-0.03
JPY	-0.07	-0.09	-0.02	0.16	JPY	0.00	-0.01	NZGB 3 1/2 04/14/33	2.48	-0.04	15 year	2.82	-0.04
CAD	1.75	1.17	2.27	2.50	CAD	1.98	0.05	NZGB 2 3/4 04/15/37	2.66	-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: NZT 06:42

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

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.