

28 November 2018



Events Round-Up

NZ: Trade balance (\$NZm), Oct: -1,295 vs. -850 exp.

US: Conference board consumer confidence, Nov: 135.7 vs. 135.7 exp.

Good Morning

Market movements have been reasonably modest overnight as we await Fed Chair Powell's speech tomorrow and the Trump-Xi meeting on the weekend. There was little reaction to a speech from Fed vice Chair Clarida overnight. The USD is broadly higher once again, although the NZD has bucked the trend and is up slightly on the day.

There have been plenty of trade-related news headlines over the past 24 hours, mostly negative, but with little impact on markets. Yesterday morning, the WSJ reported an interview with President Trump in which he said it was "highly unlikely" that he would hold off on increasing tariffs from 10% to 25% on \$200b of Chinese imports from January 1st. He added "if we don't make a deal, then I'm going to put the \$267 billion additional on." Whether this is all part of Trump's negotiating tactics remains to be seen, and at this stage the market is probably confused by his constantly changing comments on whether a deal with China is likely – the market reaction was limited. Later in the session, German press reported that Trump would possibly decide on whether to impose tariffs on auto imports, "as early as next week." The article, quoting EU sources, said the US Department of Commerce had recommended a 25% tariffs on auto imports from all countries except Canada and Mexico. US equities are down slightly on the day, with defensives continuing to outperform cyclical stocks.

US Treasury yields are also broadly unchanged overnight, with Fed vice Chair Clarida's much-anticipated speech having little impact. Clarida highlighted the robust fundamentals of the US economy but said that policy would need to be more data-dependent going forward given the Fed funds rate is "much closer to the vicinity" of neutral. In contrast to his speech earlier this month, he didn't mention risks to the global growth outlook, nor did he discuss recent market volatility. A December rate hike by the Fed is still very likely (the market prices upwards of 80% chance), if for no other reason than it reaffirms the Fed's independence in light of the criticism coming via the President's Twitter feed. But the Fed policy outlook in

2019 is more uncertain. Fed Chair Powell's speech tomorrow morning will be closely watched.

Despite the limited moves in equities and rates, the USD is stronger once again, with the DXY and Bloomberg DXY indices pushing up towards 18 month highs. The strength in the USD appears to be, at least partly, related to the continued outperformance of the US economy relative to the rest of the world. Overnight, US consumer confidence fell slightly, but remained close to 18 year highs. The so-called "labour differential", which measures the difference between the "jobs plentiful" and "jobs hard to get" indices, rose to a fresh 18 year high, and points to continued falls in the US unemployment rate.

The GBP is the worst performer over the past 24 hours, down 0.75% to 1.2740. The GBP is now close to its lowest levels since mid-2017. Brexit continues to weigh on the GBP ahead of the parliamentary vote on December 11th amid widespread scepticism that the recently agreed deal has the required numbers to pass. President Trump's comments yesterday that May's proposed deal could threaten a bilateral trade deal with the US probably didn't help, even though his comments might be misinformed. The EUR was 0.3% lower to 1.1290, in sympathy with the moves in the GBP.

The NZD has been the only currency to appreciate against the USD over the past 24 hours, albeit only slightly, and currently sits at 0.6780. Trump's comments on a Chinese trade deal being unlikely caused a short-lived fall in the NZD yesterday morning, but it has since recovered those losses. There was also little market reaction to the wider than expected NZ trade balance data yesterday. The underlying strength in imports appears indicative of still-strong domestic demand and capacity pressures. The NZD/AUD has pushed up above 0.94 again.

In contrast to the strength in the NZD, NZ rates continued their gradual grind lower yesterday, with swap rates lower by around 2bps across the curve. The 5 year swap has now declined in 10 of the past 11 trading days, since it peaked after the blockbuster NZ employment report. The market has pushed back the timing of the first RBNZ hike to late-2020, although there is still no chance of cuts priced into the curve. The FSR is released this morning, and the market will be watching for the Bank's decision on whether to loosen LVR restrictions. We will also be keeping an ear out for any monetary policy-relevant comments from the Governor in the press conference.

nick.smyth@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT	
US	Fed's Bostic, Evans and George Speak on Panel			08:30	
NZ	RBNZ Publishes Financial Stability Report			09:00	
US	Advance Goods Trade Balance	Oct	-77	-76.0	02:30
US	GDP (q/q%, annualized)	3Q S	3.5	3.5	02:30
US	New Home Sales	Oct	575	553	04:00
US	Fed's Powell Speaks to Economic Club of New York			06:00	

Source: Bloomberg, BNZ.

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6781	+0.2	0.6764	0.6810	CHF	0.9990	+0.1	S&P 500	2,666	-0.3	2.5	Oil (Brent)	59.37	-1.9
AUD	0.7206	-0.2	0.7199	0.7269	SEK	9.110	+0.2	Dow	24,596	-0.2	4.3	Oil (WTI)	50.66	-2.0
EUR	1.1290	-0.3	1.1278	1.1344	NOK	8.623	+0.4	Nasdaq	7,071	-0.2	2.8	Gold	1212.3	-0.8
GBP	1.2737	-0.7	1.2725	1.2820	HKD	7.829	+0.1	Stoxx 50	3,166	-0.2	-11.2	HRC steel	767.0	-1.4
JPY	113.78	+0.2	113.45	113.84	CNY	6.952	+0.2	FTSE	7,017	-0.3	-5.0	CRB	178.8	-0.8
CAD	1.3317	+0.5			SGD	1.379	+0.3	DAX	11,309	-0.4	-13.0	Wheat Chic.	506.5	-1.5
NZD/AUD	0.9410	+0.4			IDR	14,515	+0.3	CAC 40	4,983	+0.3	-7.0	Sugar	12.34	-1.0
NZD/EUR	0.6006	+0.5			THB	33.06	+0.1	Nikkei	21,952	+0.6	-2.4	Cotton	76.64	-1.0
NZD/GBP	0.5324	+0.7			KRW	1,129	+0.0	Shanghai	2,575	-0.0	-22.8	Coffee	113.2	+2.1
NZD/JPY	77.15	+0.3			TWD	30.89	+0.0	ASX 200	5,728	+1.0	-4.3	WM powder	2740.0	+0.2
NZD/CAD	0.9030	+0.6			PHP	52.53	+0.3	NZX 50	8,674	+0.1	6.5	Australian Futures		
NZ TWI	74.53	+0.3										3 year bond	97.89	0.02
												10 year bond	97.37	0.03
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	Last	Last	Last	Last	Last		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	2.25	2.71	3.01	3.11	USD	3.06	0.01	NZGB 6 05/15/21	1.85	-0.00	1 year	2.02	-0.01	
AUD	1.50	1.95	2.05	2.81	AUD	2.63	0.00	NZGB 5 1/2 04/15/23	2.09	-0.02	2 year	2.10	-0.02	
NZD	1.75	1.99	2.10	2.94	NZD	2.49	-0.02	NZGB 2 3/4 04/15/25	2.32	-0.02	5 year	2.47	-0.02	
EUR	0.00	0.06	-0.14	0.90	GER	0.35	-0.01	NZGB 4 1/2 04/15/27	2.49	-0.02	7 year	2.70	-0.02	
GBP	0.75	0.89	1.15	1.55	GBP	1.39	-0.02	NZGB 3 04/20/29	2.64	-0.01	10 year	2.94	-0.02	
JPY	-0.07	-0.11	0.03	0.27	JPY	0.09	0.00	NZGB 3 1/2 04/14/33	2.81	-0.01	15 year	3.19	-0.02	
CAD	1.75	1.17	2.58	2.79	CAD	2.33	-0.02	NZGB 2 3/4 04/15/37	2.95	-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 06:44

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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