

29 November 2018



Events Round-Up

US: Trade balance (\$b), Oct: -77.2 vs. -77 exp.

US: GDP (q/q%, ann.), Q3: 3.5 vs. 3.5 exp.

US: New home sales, Oct: 544k vs. 575k exp.

Good Morning

US equities have surged higher and the USD has weakened after Fed Chair Powell said interest rates were "just below" neutral, a marked change from his assessment last month. Short-end Treasury yields have fallen and the curve steepened.

Fed Chair Powell commented on the economic outlook in a speech a short while ago. Powell highlighted the strong state of the US economy at the moment, but sounded more cautious about the outlook. He mentioned that the "economic effects of our gradual rate increases are uncertain" and reiterated that policy would be data-dependent going forward. The market seemed to zero in on Powell's comment that interest rates are "just below" the range of neutral rate estimates. This marks quite a change from his comments in October that "we may go past neutral, but we're a long way from neutral at this point, probably."

US rates have fallen and the curve has steepened in response to the Powell speech. The 2 year Treasury yield is around 4bps lower on the day, while the 10 year yield is 1bp lower, at 3.05%. The 10 year breakeven inflation rate is 3bps higher on the day, at 1.95%. The market still prices a very high chance of a Fed rate hike in December and just over 30bps of hikes in 2019. The rates market prices the Fed funds rate to top-out around 2.75% (i.e. one more hike after December).

The reaction in equities and the USD has been more pronounced. The S&P500 is 1.5% higher and the NASDAQ is 1.9% higher. The DXY index has more than erased yesterday's gains and fallen 0.6% to below. The NZD and AUD have led the way higher in G10 currencies, and are now both around 1.3% higher on the day. The NZD is currently at 0.6880, just below the recent highs of 0.6885. The Japanese yen has underperformed amidst the improvement in risk appetite. The more pronounced reaction in FX and equities to Powell's comments may reflect depressed market sentiment (in equities) and market positioning (CFTC data showed speculative investors were net long USD).

Ahead of Powell's speech, President Trump had renewed his criticism of the Fed Chairman. Trump told the Washington Post "So far, I'm not even a little bit happy with my selection of Jay. Not even a little bit. And I'm not blaming anybody, but I'm just telling you I think that the Fed is way off-base with what they're doing."

In economic news, the second estimate of US third quarter GDP was unchanged at 3.5%, on expectations. New home sales continued to drop, another sign the US housing market has come under some pressure from higher mortgage rates. There was no reaction to the data.

In yesterday's report we highlighted a German media report that President Trump was considering a 25% tax on auto imports, possibly as soon as next week. General Motors decision to close down car plants in the US seems to have energized the President on the subject. Overnight Trump tweeted that "tariffs of 25% have been put on small trucks coming into our country...if we did that with cars coming in, many more cars would be built here." The current market focus on trade is the meeting between Trump and Xi at the G20 this weekend, but possible auto tariffs are something to watch out for.

Elsewhere, the GBP didn't see much impact from both the UK Treasury and BoE's risk assessments of Brexit scenarios, although it has risen back above 1.28 following Powell's speech (+0.7% on the day). The Treasury forecast a no-deal scenario would lead to a 9.3% hit to UK GDP over 15 years, while BoE forecast that the GBP would fall 25% in such a scenario, leading the Bank to hike rates to 5.5% to control inflation. The Treasury didn't model the recently agreed deal with the EU, but a close variant (the Chequers agreement) would see GDP 3.9% lower in 15 years. Meanwhile, talk of a second referendum is continuing to grow. Labour's shadow chancellor John McDonnell told the BBC overnight that its "policy is if we can't get a general election, then the other option which we've kept on the table is a people's vote."

Locally, the RBNZ announced a loosening of LVR restrictions at its Financial Stability Report yesterday. From the 1st of January, the minimum deposit required by investors will fall to 30%, from 35%. Also, up to 20% (increased from 15%) of new mortgage loans to owner-occupiers can have deposits of less than 20%. The Bank said it expected house price growth to "remain modest for the foreseeable future". There wasn't any market impact from the FSR, with the LVR changes reasonably well anticipated and no notable monetary policy-relevant

comments from the RBNZ.

It was one-way traffic in NZ rates again yesterday, with the 5 and 10 year swap rates falling another 3bps. The 5 year swap fell to 2.44% amid continued receiving interest, and it is almost back to the level that preceded the NZ employment report earlier this month. The ANZ Survey is released this morning. Continued softness in business confidence is well anticipated by the market and likely to be shrugged off given the conflicting strength in most "hard data".

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Activity Outlook	Nov		7.4	13:00
NZ	ANZ Business Confidence	Nov		-37.1	13:00
AU	Private Capital Expenditure	3Q	1	-2.5	13:30
EC	ECB President Draghi Speaks in Frankfurt				21:00
GE	Unemployment Rate	Nov	5.1	5.1	21:55
GE	CPI (y/y%)	Nov P	2.3	2.4	02:00
US	Core PCE deflator (y/y%)	Oct	1.9	2.0	02:30
US	Pending Home Sales (m/m%)	Oct	0.5	0.5	04:00

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.6781	+0.2	0.6764	0.6810	S&P 500	2,666	-0.3	2.5	Oil (Brent)	59.37	-1.9
AUD	0.7206	-0.2	0.7199	0.7269	Dow	24,596	-0.2	4.3	Oil (WTI)	50.66	-2.0
EUR	1.1290	-0.3	1.1278	1.1344	Nasdaq	7,071	-0.2	2.8	Gold	1212.3	-0.8
GBP	1.2737	-0.7	1.2725	1.2820	Stoxx 50	3,166	-0.2	-11.2	HRC steel	767.0	-1.4
JPY	113.78	+0.2	113.45	113.84	FTSE	7,017	-0.3	-5.0	CRB	178.8	-0.8
CAD	1.3317	+0.5			DAX	11,309	-0.4	-13.0	Wheat Chic.	506.5	-1.5
NZD/AUD	0.9410	+0.4			CAC 40	4,983	+0.3	-7.0	Sugar	12.34	-1.0
NZD/EUR	0.6006	+0.5			Nikkei	21,952	+0.6	-2.4	Cotton	76.64	-1.0
NZD/GBP	0.5324	+0.7			Shanghai	2,575	-0.0	-22.8	Coffee	113.2	+2.1
NZD/JPY	77.15	+0.3			ASX 200	5,728	+1.0	-4.3	WM powder	2740.0	+0.2
NZD/CAD	0.9030	+0.6			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							
	Rates			Swap Yields		Benchmark 10 Yr Bonds	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	
USD	2.25	2.71	3.01	3.11	USD	3.06	0.01
AUD	1.50	1.95	2.05	2.81	AUD	2.63	0.00
NZD	1.75	1.99	2.10	2.94	NZD	2.49	-0.02
EUR	0.00	0.06	-0.14	0.90	GER	0.35	-0.01
GBP	0.75	0.89	1.15	1.55	GBP	1.39	-0.02
JPY	-0.07	-0.11	0.03	0.27	JPY	0.09	0.00
CAD	1.75	1.17	2.58	2.79	CAD	2.33	-0.02

NZ Government Bonds				NZ Swap Yields		
	Last				Last	
NZGB 6 05/15/21	1.85	-0.00		1 year	2.02	-0.01
NZGB 5 1/2 04/15/23	2.09	-0.02		2 year	2.10	-0.02
NZGB 2 3/4 04/15/25	2.32	-0.02		5 year	2.47	-0.02
NZGB 4 1/2 04/15/27	2.49	-0.02		7 year	2.70	-0.02
NZGB 3 04/20/29	2.64	-0.01		10 year	2.94	-0.02
NZGB 3 1/2 04/14/33	2.81	-0.01		15 year	3.19	-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

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