

30 January 2019



Events Round-Up

NZ: Trade balance (NZ\$m), Dec: 264 vs. 150 exp.

AU: NAB business conditions, Dec: 2 vs. 11 prev.

US: Conference board consumer confidence, Jan: 120.2 vs. 124.6 exp.

Good Morning

Markets are in a holding pattern ahead of the big event risks over the remainder of the week. These include the FOMC meeting tomorrow, US-China trade talks which kick off tonight, payrolls on Friday, and earnings reports from some of the large US tech firms (including Apple later this morning). Currency moves have been reasonably modest, but the NZD/AUD has pushed up to near 18 month highs after a disappointing NAB business survey. The NZD is little changed against the USD.

US equity indices are mixed, with the Dow up a modest 0.4%, the NASDAQ down 0.7% and the S&P500 close to flat on the day. Earnings results from US corporates have sent mixed messages. 3M beat both revenue and earnings expectations, and reported growth across all regions in Q4 (albeit with some slowdown evident in China). Meanwhile, pharmaceutical company Pfizer said it expected little or no increase to revenues in 2019 and US wireless provider Verizon forecast flat earnings this year, disappointing the market. While around 70% of corporates have beaten earnings expectations so far this quarter, a recurring theme has been slower growth in China and more cautious earnings guidance for the year ahead. Apple's earnings results after the bell today will be closely watched after the firm lowered its revenue guidance earlier this year amid a slowdown in sales in China. Amazon and Facebook are among the names reporting later this week.

Ahead of the resumption of US-China Trade talks tonight, US Treasury Secretary Mnuchin has made some bullish comments, saying he expects "*significant progress*" to be made. Trump is expected to meet Chinese Vice Premier Liu, who is leading the Chinese delegation, later in the week. White House economic advisor Larry Kudlow said Trump was "*moderately optimistic*" about reaching a deal. The US filed criminal charges against Huawei yesterday, which is likely to antagonise the Chinese, although Mnuchin said there was no connection with the trade talks. A possible US-China trade deal would be a major boost to risk assets given the growing evidence of a

slowdown in growth in China and the global economy.

US Treasury yields are modestly lower overnight, with the 10 year Treasury yield falling 2bps to 2.72%. A much weaker than expected US consumer confidence reading was partly to blame. The Conference Board index fell sharply in January, to its lowest level in 16 months, although it remains at historically elevated levels. The fall in the index was driven by the future expectations component (likely related to the recent fall in the US stock market and the government shutdown) whereas consumers' assessment of their present situation was more optimistic. The jobs differential (i.e. those saying jobs are "plentiful" vs. those saying jobs are "hard to get") increased from 33% to 33.7%, signalling that the US labour market remains extremely tight. The Treasury market is focused on the FOMC meeting tomorrow morning (in which Chair Powell will give a press conference), and payrolls and the ISM manufacturing survey on Friday. The 10 year Treasury yield has been locked in a tight 2.65% - 2.8% range over the past three weeks.

Currency moves have again been relatively modest, ahead of the big event risk that lies ahead later this week. The USD indices are flat on the day. The GBP has slipped 0.2% to 1.3140 ahead of the UK parliamentary votes later this morning on a number of amendments put forward by MPs on Theresa May's Brexit plan (voting to take place from around 8am NZT). The mood music still appears tilted towards an extension of Article 50, with Labour formally supporting an amendment put forward by MP Yvette Cooper to extend the leave date by nine months, saying it would "*reduce the threat of the chaos of a no-deal.*" If the Cooper amendment passes, the GBP will likely appreciate from here, as it will signal the willingness of parliament to prevent a no-deal scenario. Separately, a compromise plan (dubbed the 'Malthouse Compromise') between Leavers and Remainers has emerged which would seek to extend the transition period until 2021 and redraft the Irish backstop arrangement.

The NZD is flat again overnight, and currently sits around 0.6830, close to its year-to-date highs. The AUD has underperformed slightly on the back of the sharp fall in the NAB Business Survey yesterday, although it has recovered some of its initial falls (it is currently 0.2% lower at 0.7155). Business conditions (akin to the 'Own Activity' measures in NZ confidence surveys) fell from 11 to 2, its largest monthly fall since the GFC. Our NAB colleagues caution against reading too much into a single monthly

reading, and noted that the volatility in equity markets in December and some noise probably affected the result. The next NAB Survey will carry greater importance than normal, and if the survey doesn't bounce back, it points to a more subdued economic outlook than that embedded into the RBA's forecasts. RBA Board Member Harper gave an upbeat assessment of the Australian economy in a later WSJ article and said he thought the next move by the RBA would be a hike, although the interview took place before the NAB Survey was released. The NZD/AUD has pushed higher to 0.9550, near its highest level since mid-2017. Australian CPI today is the main focus in this time zone, with our NAB colleagues looking for a below consensus reading for both headline CPI and the weighted median core measure.

nick.smyth@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
AU	CPI (y/y%)	4Q	1.7	1.9	13:30
AU	CPI Trimmed Mean (y/y%)	4Q	1.8	1.8	13:30
AU	CPI Weighted Median (y/y%)	4Q	1.7	1.7	13:30
EC	Economic Confidence	Jan	106.8	107.3	23:00
GE	CPI (y/y%)	Jan P	1.7	1.7	02:00
US	ADP Employment Change	Jan	180	271	02:15

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**		
Indicative overnight ranges (*)				Other FX		Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day	
NZD	0.6829	-0.0	0.6826	0.6862	CHF	0.9955	+0.4		Oil (Brent)	61.56	+2.7	
AUD	0.7152	-0.2	0.7144	0.7176	SEK	9.073	+0.2		Oil (WTI)	53.48	+2.9	
EUR	1.1426	-0.0	1.1411	1.1450	NOK	8.503	-0.1		Gold	1307.9	+0.4	
GBP	1.3136	-0.2	1.3125	1.3200	HKD	7.846	+0.0		HRC steel	688.0	-1.1	
JPY	109.39	+0.0	109.21	109.54	CNY	6.734	-0.2		CRB	179.3	+1.0	
CAD	1.3272	+0.1			SGD	1.352	-0.0		Wheat Chic.	520.0	-1.0	
NZD/AUD	0.9548	+0.2			IDR	14,094	+0.2		Sugar	12.65	-1.0	
NZD/EUR	0.5977	+0.0			THB	31.47	-0.2		Cotton	74.02	+0.2	
NZD/GBP	0.5199	+0.1			KRW	1,116	-0.1		Coffee	102.9	+0.2	
NZD/JPY	74.70	+0.0			TWD	30.82	+0.1		W/M powder	2890.0	+0.0	
NZD/CAD	0.9063	+0.1			PHP	52.48	-0.1		Australian Futures			
NZ TWI	74.00	+0.0							3 year bond	98.28	-0.01	
									10 year bond	97.77	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	Last			
USD	2.50	2.75	2.71	2.75	USD	2.72	-0.02	NZGB 6 05/15/21	1.72	0.02		
AUD	1.50	2.07	1.89	2.48	AUD	2.23	0.02	NZGB 5 1/2 04/15/23	1.79	0.02		
NZD	1.75	1.91	1.91	2.57	NZD	2.13	0.01	NZGB 2 3/4 04/15/25	1.97	0.01		
EUR	0.00	0.06	-0.16	0.72	GER	0.20	-0.01	NZGB 4 1/2 04/15/27	2.13	0.01		
GBP	0.75	0.92	1.12	1.46	GBP	1.27	0.00	NZGB 3 04/20/29	2.32	0.01		
JPY	-0.06	-0.09	-0.01	0.16	JPY	0.01	0.01	NZGB 3 1/2 04/14/33	2.50	0.02		
CAD	1.75	1.17	2.25	2.46	CAD	1.95	-0.01	NZGB 2 3/4 04/15/37	2.68	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 06:58

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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