

30 November 2018



Events Round-Up

NZ: ANZ activity outlook (net%), Nov: 7.6 vs. 7.4 prev.
NZ: ANZ bus. confid. (net%), Nov: -37.1 vs. -37.1 prev.
AU: Private capital exp. (q/q%), Q3: -0.5 vs. 1.0 exp.
GE: Unemployment rate (%), Nov: 5.0 vs. 5.1 exp.
GE: CPI (y/y%), Nov: 2.2 vs. 2.3 exp.
EC: Economic confidence, Nov: 109.5 vs. 109.1 exp.
US: Personal income (m/m%), Oct: 0.5 vs. 0.4 exp.
US: Personal spending (m/m%), Oct: 0.6 vs. 0.4 exp.
US: Core PCE deflator (y/y%), Oct: 1.8 vs. 1.9 exp.
US: Jobless claims (k), wk to 24 Nov: 234 vs 220 exp.
US: Pending home sales (m/m%), Oct: -2.6 vs. 0.5 exp.

Good Morning

Currency markets are trading water ahead of the important Xi-Trump meeting this weekend. US equities are modestly lower through the morning session, while the US 10-year rate is back near the NZ close of 3.03% after earlier breaking below 3%.

There are conflicting reports ahead of Xi and Trump's highly anticipated and important dinner meeting Saturday night in Argentina, after the G20 summit. Rather than jump at headlines, the market has taken a laid-back approach and prices are trading water until we see the outcome. Early in the day, Trump tweeted the merits of his tariff policy and as he was leaving for the G20 he told reporters that the US was very close to a deal with China, but added "I don't know if we want to do it. I'm open to making a deal, but frankly, I like the deal we have now", the latter comment implying he liked the tariffs in place that might put pressure on China to change its policies.

The WSJ reported that the US and China, "looking to defuse tensions and boost markets, are exploring a trade deal in which Washington would suspend further tariffs through the spring in exchange for new talks looking at big changes in Chinese economic policy". This contradicts Trump's comments last week that he thought it highly unlikely he would suspend the proposed increase in tariffs on 1 January. The South China Morning Post reported that White House advisor Navarro – a China hawk – will now attend the Xi-Trump dinner this weekend after reports last week that he wouldn't.

As well as all the headlines on the US-China trade war, there have been a number of key economic releases. Of the US data released overnight, personal income and spending in October were slightly stronger than expected but all the other indicators came on the soft side. The core PCE deflator rose by 1.8% y/y, undershooting market expectations and suggesting a recent easing of inflationary pressure, with the annualised rate over the past six months now down to just 1.5%. A stronger USD and weaker oil prices should keep inflationary pressure soft and add to the case for the Fed pausing its tightening cycle from early next year. Jobless claims continue to rise and reached a six-month high last week, although the timing of Thanksgiving holiday and the recent hurricanes likely overstate the upward trend over the past couple of month. If claims don't correct lower over coming weeks, then that would be a sign of a softening labour market. Pending home sales were much weaker than expected, falling to a 4-year low, adding to the evidence of a slower US housing market.

On the global front Switzerland and Sweden Q3 GDP both unexpectedly contracted in Q3, following recent data showing contractions for Germany and Japan. The theme of a global economic slowdown seems clear, so the question is will it continue or can it be simply explained by temporary factors? Germany's unemployment rate fell to a record low of 5.0%, but inflation was softer than expected. Alongside lower inflation in Spain, tonight's euro-area CPI report could well be on the soft side as well.

None of this caused much of a ripple in financial markets, as this weekend's key risk event – the Xi-Trump meeting – needs to be cleared first. The NZD sits this morning around 0.6850, with 0.6885-90 looking like an area of resistance which it has tested recently. The AUD sits just over 0.73, with 0.7350 proving to be hard to crack. Apart from modest weakness in CHF and SEK after their GDP misses, GBP has been on the soft side as PM May tries to sell her Brexit deal to Parliamentary colleagues and the general public. It has traded below 1.28 for much of the overnight session. NZD/GBP hasn't broken 0.54 yet, meeting some resistance near 0.5385.

Oil prices are up 2-3%, recovering from earlier losses, after reports that Russian officials are signalling the likelihood of a production cut in tandem with OPEC. WTI oil got down to about \$49.50 ahead of the report but now sits just under \$52. The US 10-year Treasury rate got down to 2.9950% as oil prices were at their nadir, but the yield has since drifted back up to 3.03%, a rate we saw

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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