

Brexit talks entering the endgame

With little new data or central bank action to start the week, the biggest headlines have been political or COVID-related.

In the US, lawmakers are still working to try and craft a stimulus package with a chance of passing Congress, given the end of the month is the deadline when many benefits will expire. There has also been a deterioration in US-China relations overnight, with the US sanctioning several Chinese officials for Hong Kong-related reasons. Rising COVID cases and near-capacity ICUs have also forced the state of California to extend its stay-at-home order until after Christmas, which may put a dampener on economic activity in the near term.

All up the slightly negative tone to the headlines meant it was a softer start to the week for Wall Street. Having hit record highs last week, US equities eased a little with the Dow down 0.57% at the time of writing and the S&P500 falling 0.32%. The exception was the Nasdaq, where gains for tech stocks helped bring the index to a 0.29% lift. **Treasury yields fell**, and we saw the US 10-year down 4bps to around 0.926.

Brexit talks also appear to be perched on a knife-edge. Overnight, the UK appeared to make a concession, announcing it would back down on its controversial 'Internal Market' legislation in the event of a deal with the EU. As at the time of writing, UK PM Boris Johnson and European Commission President Ursula von der Leyen had been speaking at length to make progress on remaining areas of contention. **The stakes are high, with the EU also declaring yesterday that talks would not go beyond Wednesday GMT (Thursday NZT).** Conflicting reports have emerged over recent days over the status of the talks. Yesterday, reports suggested there had been a breakthrough on the thorny issue of fishing rights, with the UK and EU close to finalising terms on access to British territorial waters. However, in comments last night, Irish Foreign Minister Simon Coveney said things were "very downbeat," and there had not been a breakthrough after all.

Brexit nerves weighed on European markets. European equities were broadly lower, but the weakness of GBP left UK shares mixed, with the FTSE100 making a small 0.08% gain. **Brexit nerves sent bond yields lower across the board, but the falls were sharpest for the UK**, with the 10-year down nearly 7bps to around 0.280

In Australasia, sentiment was broadly positive yesterday, with sharemarkets advancing and bond yields lifting. The NZX was up 0.20% over the day, whilst the yield on the NZ 10-year lifted to around 0.929. Notably, the ASX lifted 0.62%, at one point hitting its highest level since the pandemic kicked off in earnest. During the day, the news came through that New South Wales and Victoria see have their credit ratings downgraded, but Australasian markets weren't overly perturbed by the news. Instead, sentiment was supported by a couple of internal border re-openings and the news iron ore prices have hit an eight-year high.

RBA Governor Philip Lowe was also speaking yesterday, but the focus was on regulation of the Australian payments system and didn't offer any new insights on the bank's view of the economy or the direction of travel for monetary policy.

There was little in the way of major data out yesterday or overnight. The biggest release was arguably Chinese Trade balance for November, which showed a surge in exports (up 21% on last year) resulting in the largest trade surplus on record (\$75.4bn vs ASB: \$53bn), as the economic recovery continued. In Australia, data reflected the easing of restrictions over recent weeks and months. The Performance of Services index showed an expansion in activity as some businesses reopened, while there was an uptick in job vacancy adverts in ANZ data. **There were no major data releases here in New Zealand.**

FX Comment: The softer sentiment overnight saw the NZD/USD pause for breath a little, although it is sitting at a still-elevated level of around 0.7050 as at the time of writing. The NZD/AUD also tracked sideways just shy of 0.9500. Still, the big story in currency markets overnight were the movements in the GBP, which was roiled by Brexit jitters. Sterling was down sharply against all its major G10 peers as markets digested the fact that a 'no-deal' Brexit remains a real possibility with not that much time remaining on the clock

Day Ahead: Things are a bit livelier on the data front today. Domestically, the ANZ business confidence result for December is out. Across the Tasman, NAB business confidence data for November is out, as are the house prices indices for Q3 at 1.30pm NZT. Overnight, there's a glut of European data – Q3 GDP (survey: 12.6% qoq, -4.4 yoy), Q3 employment, and the December survey of expectations. **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7050	0.0%	NZD/SEK	5.919	-0.8%	NZX WMP	3240.0	-0.3%	Dow	30038	-0.6%
NZD/AUD	0.9489	0.0%	NZD/DKK	4.329	0.0%	Gold \$/o	1860.1	1.2%	S&P 500	3687	-0.3%
NZD/EUR	0.5815	0.0%	NZD/THB	21.3	0.0%	WTI Oil \$/b	46.1	-0.4%	NASDAQ	12513	0.4%
NZD/JPY	73.30	0.0%	AUD/USD	0.7430	0.0%	Money Market (%)			FTSE	6555	0.1%
NZD/GBP	0.5263	-0.2%	EUR/USD	1.212	0.0%	90 Day BB	0.26	0.01	CAC-40	5573	-0.6%
NZD/CAD	0.9024	-0.2%	USD/JPY	104.0	-0.1%	OCR	0.25	0.00	DAX	13271	-0.2%
NZD/CHF	0.6275	5.4%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26507	-1.2%
NZD/HKD	5.464	0.0%	NZ	0.95	0.04	1yr	0.24	0.00	Nikkei	26547	-0.8%
NZD/SGD	0.9417	0.0%	US	0.92	-0.04	2yr	0.26	0.00	ASX200	6675	0.6%
NZD/CNH	4.595	0.0%	Aust	1.04	0.04	5yr	0.47	0.02	NZX50	12656	0.2%

ASB Economics & Research

			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657	
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661	
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915	
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5720	
Publication and Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660	

ONE STEP AHEAD

Click here to read the latest
ASB Economic Reports<https://reports.asb.co.nz/index.html>[@ASBMarkets](https://twitter.com/ASBMarkets)ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland

Important Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.