

NZD/GBP soars on Brexit woes

Currency markets have been where most of the action has been overnight. By contrast, equity and bond markets have had a fairly forgettable session, despite some chunky news flow. Global stock indices are mixed, generally closing a few points either side of unchanged. US bond yields have barely budged while European yields are a touch higher after the ECB nudged up its European growth forecasts (German 10-year bund +3bps to -0.6%).

The USD has continued to lose ground overnight, with the USD index closing in on 2½ year lows. The commodity currencies – AUD, NZD, and CAD – have led the way higher against the ailing USD, posting gains of close to 1%. This reflects a strong night for the commodity complex. Oil prices are up a little over 3% to the highest level since March (WTI US\$47/barrel), precious metals are up 1-4%, and iron ore prices have continued their relentless run higher. Reflecting the latter, the AUD/USD is top of the G10 pops, while the NZD/USD, at 0.7090, looks likely to again test 2½ year highs at 0.7100.

At the other end of the spectrum, the GBP has underperformed on the back of more Brexit disappointment. GBP/USD is down just over 0.5% to 1.3300 which, coupled with the strong NZD/USD performance, has seen NZD/GBP soar to 16-month highs near 0.5340. An overnight meeting between UK PM Johnson and the European Commission President failed to result in a trade deal breakthrough. One official was quoted as saying “very large gaps remain between the two sides”. The deadline for hashing out a deal to avoid a ‘no-deal Brexit’ was extended to Sunday, meaning it could be an interesting Monday morning FX open for the GBP.

The other two big news items of the night proceeded largely as expected, limiting market action on the night. US inflation printed at 1.6% yoy (ex food and energy, 1.5% expected). Higher than expected jobless claims (853k vs. 725k expected) raised a few eyebrows to the extent delays in US fiscal stimulus now appear to be negatively impacting the US labour market. But both House Speaker Pelosi and Treasury Secretary Mnuchin made soothing noises about a relief package being reached soon, and this helped limit any fallout.

The ECB lifted the size of its Pandemic Emergency Purchase Programme (PEPP) by €500b and extended the expiry of the scheme nine months to March 2022. The depo rate was left unchanged at -0.5%. It was all very much as expected, and reaction was small.

According to the Australian media, the Chinese government may restrict imports of Australian honey, fruit and pharmaceuticals. Australia exports very little honey (A\$100mn), while fruit (A\$1bn) and pharmaceuticals (A\$2bn) are more important though small compared to Australia’s total exports. Our CBA colleagues believe that, as long as Australia’s largest export to China, iron ore, is unscathed by the ongoing trade spat the fundamental AUD/USD uptrend will remain intact.

NZ data out yesterday revealed electronic card spending rose by 0.1% in November. This was a touch lower than we expected but is still impressive given it meant the 9% October increase was sustained. Overall spending is now around 7% *higher* than pre-COVID (February 2020) levels. This adds to the picture of resilience in domestic activity and strong consumer spending appetites as we head into the Christmas shopping season. Still, we’d caution that rising unemployment, the MIA summer tourist, and supply chain difficulties may pose a few challenges for the retail sector in coming months.

Day Ahead: It’s a quiet end to the week data-wise. There’s not a lot of market-moving data due to be released tonight, with politics likely to remain in the driving seat for markets in any case (Brexit, US fiscal wrangling). Today in NZ we get a bunch of second tier data (REINZ housing, PMI manufacturing, food prices). All should support the theme of NZ’s impressive economic resilience.

Author: mike.jones@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7087	1.0%	NZD/SEK	5.9855	0.3%	CRB Index	161.8	1.8%	Dow	29979	-0.3%
NZD/AUD	0.9413	-0.3%	NZD/NOK	6.2236	0.3%	NZX WMP	3235	0.0%	S&P 500	3669	-0.1%
NZD/EUR	0.5845	NA	NZD/THB	21.31	0.9%	Gold \$/o	1834	-0.3%	NASDAQ	12392	0.4%
NZD/JPY	73.90	NA	AUD/USD	0.7530	1.3%	WTI Oil \$/b	47.0	3.3%	FTSE	6600	0.5%
NZD/GBP	0.5338	NA	EUR/USD	1.2126	0.5%	NZD Swap Rates (%)			DAX	13296	-0.3%
NZD/CAD	0.9029	NA	USD/JPY	104.27	0.0%	OCR	0.25	0.00	CAC-40	5550	0.1%
NZD/CHF	0.6292	5.6%	10 Yr Bond Yields (%)			3mth	0.26	0.00	H.Seng	26411	-0.3%
NZD/HKD	5.4938	1.0%	NZ	0.89	-0.03	1yr	0.25	0.00	Nikkei	26756	-0.2%
NZD/SGD	0.9473	0.8%	US	0.92	-0.02	2yr	0.26	0.00	ASX200	6683	-0.7%
NZD/DKK	4.3508	0.5%	Aust	0.99	-0.04	5yr	0.45	0.00	NZX50	12860	-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	

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ASB North Wharf, 12 Jellicoe Street, Auckland

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