Daily Alert
New Zealand Edition

10 December 2020

Horse trading continues as stocks slip

Hopes of a US fiscal stimulus deal remain up in the air, keeping markets on edge. Optimism had earlier been boosted after US Treasury Secretary Mnunchin presented a fresh USD916bn package to Democrat House Speaker Pelosi. It differs in some aspects from the USD908bn bipartisan deal favoured by Pelosi and Senate Democrat leader Schumer, with the Democrats unwilling to compromise on some key differences, including the treatment on unemployment insurance, protections for employers and state and local authority aid. Senate Leader McConnell blasted the Democrats for failing to negotiate.

Vaccine news was the catalyst to earlier optimism, with the US Food and Drug Administration indicating they are close to granting emergency use authorisation to Pfizer, calling the shot 'highly effective'. An announcement is due over the next day or so. It was reported early this morning that Health Canada has approved the Pfizer vaccine (the 2nd country after the UK), paving the way for countrywide vaccinations next week.

However, it still remains unclear whether the UK and EU will reach (and ratify) a post-Brexit trade deal by year-end, with UK PM Johnson reiterating that the UK would not accept further significant compromise after earlier dropping parts of an Internal Market Bill that would have given it power to rule out parts of the Brexit deal. Significant differences remain on three key issues: level playing field (i.e. regulatory alignment), governance and fisheries. UK Prime Minister Johnson has gone to Brussels to meet with European Commission President von der Leyen to try to broker a deal. This will go down to the wire.

Global equities wobbled overnight, with the S&P500 easing from record highs (-0.8%), with falls for the Dow (-0.5%) and Nasdaq (-1.70%). Market volatility (VIX) ticked up (to 22), but it still hovering around post-COVID-19 lows. European equity indices treaded water. A surprise 17% October jump in Japanese core machinery orders helped boost equities during the Asian session. Weak Chinese inflation data (headline CPI -0.5% yoy, core CPI +0.5% yoy, PPI -1.5% yoy) weighed on Chinese equities. Australasian equities were firmer with the NZX50 gaining 1.3% and the ASX200 up 0.6% to an 9-month high.

Treasury yields were little changed overnight (10Y 0.93%), with modest moves in European government bond yields. Yields were marginally firmer in Australia as expectations moved closer to our CBA colleagues view of a stronger 2021 outlook for the Australian economy, given the strengthening in recent business (at 8.8 in the NAB survey a 21-month high) and consumer confidence readings (a decade-high 112 for the Westpac survey). Local yields were little changed despite strong local data (see below). Oil prices firmed after militant attacks on Iraqi oilfields, reversing falls triggered by higher US fuel stockpiles. Gold prices eased.

The Bank of Canada rate left its policy rates unchanged, maintained its CAD4bn weekly QE programme and pledged to hold the overnight rate at 0.25% until the 2% inflation objective is sustainably achieved (likely 2023). This was despite the recent flare up of COVID-19 cases and the re-imposition of restrictions. There was little market reaction.

NZ Q3 data yesterday confirmed the rebound in economic activity is likely to prove to be stronger than earlier expected, with sizeable quarterly lifts for manufacturing, wholesale trade and parts of the services sector. We have revised up our preliminary Q3 GDP to a record 13% qoq lift (about 2% below pre-COVID-19 levels). A 'V' shaped recovery beckons and the key will be the economy staying on the expansion path as we near the peak months for inbound tourism

FX Comment: Concerns over the global outlook saw the USD index firm from 2½ year lows, with the offshore yuan easing to 6.53 USD. Performance of the Australasian economies was mixed, with the AUD amongst the strongest performers in the G10 overnight, and the NZD one of the laggards. The NZD is currently towards the bottom of its 0.7020 to 0.710 USD overnight range and has fallen from 95 to around 94.4 Australian cents at present. NZD direction will hinge on global risk appetite and how well the NZ economy is tracking against its global peers.

Day Ahead: November retail card spending for NZ is expected to show solid momentum (ASB: +1.0% mom, prior 8.8% mom) given the Black Friday sales. At 2pm is the $600m tender of the 2023, 2029 and 2033 NZ Government bonds. We will be looking for signs of improved demand given the recent rise in NZ yields and the$800m in RBNZ purchases signalled this week. October GDP, construction and industrial production and services data is expected to show cooling momentum in the UK. The ECB is widely expected to hold policy interest rates, but we expect the €1350bn pandemic emergency purchase programme (PEPP) to be extended and the ECB to expand its targeted long-term refinancing operations (TLTROs) to increase financing to credit institutions. US inflation readings are expected to remain benign for both headline (+1.1% yoy) and core CPI (1.5% yoy). A small pick-up in expected for US initial jobless claims (mkt: 725k, prior 712k), but with continuing claims (mkt: 5520k) down to their lowest since late March. **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7022	-0.3%	NZD/SEK	5.970	0.0%	NZX WMP	3235.0	-0.2%	Dow	30088	-0.3%
NZD/AUD	0.9442	-0.7%	NZD/DKK	4.332	0.0%	Gold $/o	1835.8	-1.9%	S&P 500	3684	-0.5%
NZD/EUR	0.5819	0.0%	NZD/THB	21.1	-0.2%	WTI Oil $/b	45.4	-0.5%	NASDAQ	12443	-1.1%
NZD/JPY	73.27	0.0%	AUD/USD	0.7437	0.4%	**Money Market (%)**			FTSE	6564	0.1%
NZD/GBP	0.5253	-0.3%	EUR/USD	1.207	-0.3%	90 Day BB	0.27	0.00	CAC-40	5547	-0.2%
NZD/CAD	0.9000	-0.3%	USD/JPY	104.3	0.2%	OCR	0.25	0.00	DAX	13340	0.5%
NZD/CHF	0.6257	5.1%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	26503	0.8%
NZD/HKD	5.444	-0.3%	NZ	0.93	-0.01	1yr	0.25	0.00	Nikkei	26818	1.3%
NZD/SGD	0.9400	-0.3%	US	0.95	0.03	2yr	0.26	0.01	ASX200	6728	0.6%
NZD/CNH	4.591	0.0%	Aust	1.03	0.00	5yr	0.45	0.01	NZX50	12889	1.3%

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	

https://reports.asb.co.nz/index.html

@ASBMarkets

ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland