

ANZ MORNING FOCUS
NEW ZEALAND EDITION

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Con Williams, Agri Economist
E-mail: con.williams@anz.com**Sam Tuck, Senior FX Strategist**
E-mail: sam.tuck@anz.com

MARKET SNAPSHOT (07:15 NZ TIME)

	Level	Change*
FX		
NZD/USD	0.6811 ↑	0.0041
NZD/AUD	0.9421 ↓	-0.0012
AUD/USD	0.7231 ↑	0.0054
EUR/USD	1.0964 ↑	0.0053
USD/JPY	121.01 ↓	-0.1200
GBP/USD	1.4815 ↓	-0.0068
Commodities		
Gold	1,073.94 ↑	1.30
WTI Oil futures	36.36 ↑	1.62
CRB	172.15 ↓	-0.28
Equities		
Dow Jones	17,379 ↑	128
S&P 500	2,033 ↑	12
Nasdaq	4,980 ↑	11
VIX	17.0 ↓	-1.7
Rates		
US 2yr	0.96 ↑	0.02
US 10yr	2.22 ↑	0.03
US 30yr	2.95 ↑	0.04

KEY DATA RELEASES

Releases	Act	Exp	Last
US GDP Annualized q/q - Q3 T	2.0%	1.9%	2.1%
US Personal Consump - Q3 T	3.0%	2.9%	3.0%
US GDP Price Index - Q3 T	1.3%	1.3%	1.3%
US Core PCE q/q - Q3 T	1.4%	--	1.3%
US FHFA House Price Index m/m - Oct	0.5%	0.4%	0.7%
US Existing Home Sales - Nov	4.76M	5.33M	5.32M
US Existing Home Sales m/m - Nov	-10.5%	-0.5%	-4.1%
US Richmond Fed Manufact. Idx Dec	6	-1	-3
GE GfK Consumer Confidence - Jan	9.4	9.3	9.3
UK Public Finances (PSNCR) - Nov	£5.4B	--	-£3.8B
UK Public Sector Net Borrowing - Nov	£13.6B	£11.8B	£6.7B
UK PSNB ex Banking Groups - Nov	£14.2B	£12.0B	£7.4B

WHAT'S AHEAD TODAY

Releases	Time	Exp.	Last
NZ Trade Balance - Nov	10:45	-710M	-963M
NZ Exports - Nov	10:45	3.90B	3.83B
NZ Imports - Nov	10:45	4.66B	4.79B
NZ Trade Balance 12 Mth YTD - Nov	10:45	-3664M	-3237M

HIGHLIGHTS

- Final US Q3 GDP a touch better than expected, with consumer spending leading the way, offset to some degree by weak trade conditions.
- Very illiquid market conditions, with end of year holidays close by.

OUTLOOK

UPCOMING TODAY: New Zealand November Overseas Merchandise Trade (10:45am) and RBNZ Credit Aggregates (3:00pm) are released today.

CURRENCY: The November NZ trade balance is unlikely to change the trajectory of the NZD, but is likely to provide warning on the possible strength of a seasonal improvement. Further US data tonight may bring USD support.

RATES: No kiwi trades reported in London overnight again. Local rates are expected to open unchanged, with a bias to steepen the curve.

REVIEW

CURRENCY: GBP continued to fall as the UK budget deficit widened, while USD also remained on the back foot as market continue to pare long USD positions – despite better US data.

GLOBAL MARKETS OVERVIEW: It was another quiet session on markets overnight with thin trading conditions. Sentiment was improved with US data a touch better, the prospect of more China stimulus in 2016 and oil prices finding a base. Sovereign bond markets sold-off with major euro area 10-year yields rising 3-6bps and UST up 2-3bps across the curve. Equities rebounded a little from the soft performance the day before. European stocks were little changed, but UK stocks increased by 0.8% and US bourses were 0.3-0.7% higher at the time of writing.

ANZ'S ASSESSMENT

DATA PREVIEW. November merchandise trade is expected to show a now familiar story of pressured export earnings and resilient import demand. A monthly trade deficit of \$800 million is expected for November. This would be the ninth monthly deficit posted for 2015 and push the annual trade deficit out to \$3.75bn, the highest in 6½ years. Export values are expected to start their normal seasonal uptick courtesy of lifting volumes, but be weighed down by lower in-market prices. Indeed dairy prices softened in November after bouncing off earlier extreme lows and non-dairy export prices have faced more pressure recently declining 11% over the last eight months. The NZD also remained resilient in November even though it wasn't quite as strong October. The combination of both factors has provided a significant headwind for export earnings in recent months. On the other side of the coin, import values are expected to remain a healthy \$4.7 billion in November. The domestic demand backdrop has remained relatively resilient, supported by improved business and consumer confidence, record net migration, low interest rates, and domestic housing investment. These factors have culminated in a pick-up in economic activity and labour demand over the second half of 2015. The durability of imports is likely to be questioned more strongly in 2016 otherwise there is a risk of a further blowout in some of the country's sin measures. Indeed there is evidence of a borrow-and-spend dynamic having re-emerged with annual household credit growth of 7%, outpacing nominal income growth of 5.5% over the last 12 months. This has seen the likes of New Zealand's household saving rate re-enter negative territory. *Continued over the page*



This is our last *Morning Focus* of 2015. Our first edition for 2016 will be on January 11. We would like to wish our readers a safe and enjoyable festive season.

OVERVIEW

Equities	Level	Change*
Dow Jones	17,379	128
S&P 500	2,033	12
Nasdaq	4,980	11
Euro Stoxx 50	3,214	1
DAX	10,489	-9
FTSE	6,083	48
Nikkei	18,887	-29
Shanghai A	3,822	9
Aus SPI	5,067	-4
ASX 200	5,117	8
NZX 50	6,148	27
MSCI World	1,639	0
MSCI EM	791	0
VIX	17.0	-1.7

Commodities	Level	Change*
PRECIOUS AND BASE METALS		
Gold (USD/oz)	1,073.94	1.30
Gold (NZD/oz)	1,576.86	-12.71
Aluminium (USD/mt)	1,521	0
Copper (USD/mt)	4,733	0
Nickel (USD/mt)	8,848	0
Zinc (USD/mt)	1,515	0
ENERGY		
WTI futures (USD/bbl)	36.36	1.62
Brent futures (USD/bbl)	36.40	0.05
AGRICULTURE		
WMP futures (USD/mt)1	2,350	0
Corn (US\$/bu)	366.75	-5.25
Wheat (US\$/bu)	473.50	-5.50
Soybeans (US\$/bu)	888.25	-3.25
Cotton (US\$/lb)	63.24	-0.08
Sugar (US\$/lb)	15.04	0.07
Live Cattle (US\$/lb)	130.93	0.90
Palm Oil (MYR/mt)	2,468	25
Cocoa (USD/mt)	3,180	-59
OTHER		
China Rebar (RMB/mt)	1,957	19
Thermal Coal (USD/mt)2	51.40	-0.10
Iron Ore Spot (USD/mt)3	38.98	0.00
CRB Index	172.15	-0.28
Baltic Freight Rate	478	0.0

US Interest Rates	Level	Change*
Fed Funds Rate	0.50	0.00
3m Libor	0.59	0.00
2yr bond	0.96	0.02
10yr bond	2.22	0.03
30yr bond	2.95	0.04

NZ Interest Rates	Level	Change*
OCR	2.50	0.00
90 day bill	2.75	0.02
NZGS 12/17	2.63	0.00
NZGS 04/23	3.18	0.01
1yr swap	2.76	-0.01
2yr swap	2.85	0.01
3yr swap	2.98	0.01
4yr swap	3.12	0.01
5yr swap	3.25	0.01
7yr swap	3.48	0.02
10yr swap	3.72	0.02

* Chg from 07:15 previous day (not mkt close)

There is only so much that can go on the revolving mortgage and credit card. This means credit growth figures for November will be watched. Credit growth is expected to remain at healthy levels into year end, but flattening mortgage approval values suggests a peak is near and some softening in 2016 is likely. Some softening in 2016 will be required to reduce vulnerabilities further down the track.

OVERNIGHT SPECIFICS AND KEY EVENTS

- The US data was generally better than expected overnight.** The third estimate of Q3 GDP was revised down just a tenth to 2.0% q/q annualised. This was mainly driven by a slightly greater subtraction to growth from inventories. Personal consumption was nudged up a touch to 3% q/q annualised. The report continued to highlight domestic household consumption leading the way for the US, but weaker international trade conditions and the high USD providing headwinds. The Richmond Fed manufacturing index rebounded to a reading of 6 in December from -3 in November, with all of the key subseries higher. This was in contrast with other regional surveys that have shown contractions in December. The other piece of data was existing home sales, which slumped by over 10% in November, Bloomberg is reporting that this is not due to economic reasons, but rather a change in industry rules (from the federal government) which has extended the length of time it takes buyers to close on a deal (normally a month or two). Therefore not too much can be read into the result.
- Yesterday China concluded its Central Economic Work Meeting which sets the tone of fiscal and monetary policy in the following year. **The key take outs were the Chinese government will maintain a proactive fiscal stance in 2016 and monetary policy is expected to remain accommodative too. The aim is to achieve 6.5% growth in 2016.** The meeting formally coined the terminology of 'supply-side structural reform' recently mentioned by President Xi Jinping. Instead of simply boosting aggregate demand, the strategy aims to support growth through lifting productivity and efficiency. The policy subscription is expected to be a package of macroeconomic rebalancing toward lifting domestic consumption, corporate deleveraging and supporting the drive for the economies innovation capacity.
- It was another quiet session on markets overnight with thin trading conditions.** Sentiment was improved with US data a touch better, the prospect of more China stimulus in 2016 and oil prices finding a base. Sovereign bond markets sold-off with major euro area 10-year yields rising 3-6bps and UST up 2-3bps across the curve. Equities rebounded a little from the soft performance the day before. European stocks were little changed, but UK stocks increased by 0.8% and US bourses were 0.3-0.7% higher at the time of writing.
- The CRB index continued to struggle, but the price action was a little more sideways and components mixed.** Oil managed to find a base before weekly US crude inventory and production data, which is expected to show a continued rise. Grain prices 1.0% and precious metals prices were also down. Offsetting this were increases in livestock, soft commodities and industrials.

CURRENCY OUTLOOK AND MARKET TABLES

NZD/USD: Positioning...

The USD continued to underperform more broadly, despite a pickup in US data. Q3 GDP showed solid personal consumption and a pick-up in core PCE, while the Richmond Fed jumped back into positive territory. Existing home sales were weak, but reportedly driven by a law change that delayed contract closings in November. Tonight markets will look to personal income/spending, durable goods, and Michigan confidence for direction.

Expected range: 0.6760 – 0.6840

NZD/AUD: Trade Balance...

While the November New Zealand Trade balance is unlikely to overly impact NZD/USD, this cross may find reasons to top out on the release.

Expected range: 0.9370 – 0.9460

NZD/EUR: Flow...

Flow lifted EUR/USD keeping a lid on this cross. There was little out overnight to drive Europe, but sovereign yields did lift nonetheless.

Expected range: 0.6170 – 0.6270

NZD/JPY: JPY demand...

JPY continued to find broad based demand allowing this cross to ease lower overnight. NZD strength is still pushing this toward the top of its range, but the trend in JPY appears more stable.

Expected range: 81.70 – 83.00

NZD/GBP: The deficit...

Cable continues to plumb new cycle lows as UK borrowing was revealed to be larger than expected. There was a flow explanation too, but with markets heading for levels not seen since April the GBP is definitively out of favour. NZD/GBP is approaching solid resistance now.

Expected range: 0.4560 – 0.4630

FX	Overnight Range	vs USD	vs NZD
NZD	0.6805 - 0.6836	0.6811	..
AUD	0.7216 - 0.7249	0.7231	0.9421
EUR	1.0902 - 1.0984	1.0964	0.6211
JPY	120.73 - 121.31	121.01	82.42
GBP	1.4807 - 1.4908	1.4815	0.4598
CAD	1.3916 - 1.3955	1.3935	0.9491
CHF	0.9857 - 0.9938	0.9867	0.6719
CNH	6.5252 - 6.5452	6.5264	4.4451
NZ TWI	74.07 - 74.40	74.130	..
DX	98.000 - 98.503	98.13	..

Interest rates	Cash	1M	2M	3M	6M
NZ (BKBM)	2.50	2.64	2.70	2.75	2.80
AU (BBSW)	2.00	2.07	2.22	2.35	2.49
USD (Libor)	0.50	0.36	0.44	0.53	0.77
EUR (Libor)	0.05	-0.20	-0.16	-0.12	-0.03
GBP (Libor)	0.50	0.50	0.54	0.58	0.74
JPY (Libor)	0.10	0.04	0.06	0.08	0.12

Source: Bloomberg, ANZ Research

Note: The overnight currency ranges are between 5pm the previous trading day to 7am today. Due to liquidity constraints, these are not necessarily tradable levels. Money market rates are indicative levels only. Please speak to your ANZ representative if you require the latest market pricing.

¹ NZX Global Whole Milk Powder futures price, first contract

² Newcastle futures contract

³ Active NY Mercantile Exchange Iron Ore Futures Contract (Iron ore fines 62% Fe - CFR China Port)

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