

5 November 2021



Events Round-Up

GE: Factory orders (m/m%), Sep: 1.3 vs. 1.8 exp.

UK: Bank of England base rate (%), Nov: 0.1 vs. 0.1 exp.

UK: BoE gilt purchase target (£b), Nov: 875 vs. 875 exp.

US: Initial jobless claims (k), 30-Oct: 269 vs. 275 exp.

US: Trade balance (\$b), Sep: -80.9 vs. -80.2 exp.

Good Morning

The main news overnight has been the Bank of England's shock decision not to raise interest rates, which the market had fully priced in. UK rates fell as much as 20bps and the GBP slumped 1.4%, with the decision reverberating to other bond markets (US 10-year rate -9bps). Equities continue to grind higher, with the S&P500 and NASDAQ hitting fresh record highs. The NZD has fallen almost 1% and is back down to 0.71. Focus shifts to the nonfarm payrolls report tonight.

The Bank of England kept its cash rate on hold overnight, at 0.1%, and decided to keep its QE bond buying programme running until the end of the year. It was a split decision, with two MPC members voting for a 15bps rate hike and three voting for an immediate end to the QE bond buying programme. A narrow majority of economists had predicted an on-hold decision, but the move was a shock to the market, which had fully priced a 15bps rate hike following a succession of hawkish comments from BoE officials.

Governor Bailey rejected accusations that he had misled the market, including his recent comments that the BoE "will have to move", noting that his statement was contingent on inflation expectations becoming unanchored, something the BoE didn't think was happening. Indeed, the BoE's inflation forecasts, while revised substantially higher in the near-term (peaking at around 5% by April), showed inflation marginally below the 2% target at the end of the forecast horizon, a sign that previous market pricing for almost 100bps of rate hikes by the end of 2022 (which these inflation forecasts were conditioned on) was, in Bailey's words, "overdone".

The BoE still has a tightening bias, noting rate hikes were expected to commence "over the coming months". But the majority of MPC members saw value in waiting to see how the end of the UK government's job support scheme affects the labour market.

The UK rates market was completely wrong footed by the decision, with the 2-year bond rate tumbling 21bps and the 10-year rate down 14bps, to 0.93%. Note that the market still prices a high chance of a 15bps rate hikes at the upcoming BoE meeting in December. The GBP is the standout mover in the currency market, down 1.4% to 1.3490, approaching the year-to-date lows around 1.34.

The BoE's decision is reflective of some dovish pushback among central banks in recent weeks. Yesterday, the Fed confirmed it would taper QE this month, but Powell said it could afford to be "patient" for the time being. ECB President Lagarde said on Wednesday that it was "very unlikely" the conditions for a rate hike would be met in 2022, something she described in a later interview as "off the chart". And, earlier in the week, RBA Governor Lowe pushed back against market pricing for rate hikes in 2022, even as he conceded that a move in 2023 was possible.

Global bond yields are sharply lower overnight on the back of the BoE's rate decision. The US 10-year rate has fallen 9bps, to 1.51%, while market pricing for the first Fed rate hike has been pushed back to September next year. 10-year bond yields are 6-12bps lower in Europe, with Italy outperforming on expectations that the ECB's bond buying programme might stay in place for a bit longer.

Equity markets have continued their post-FOMC moves higher, with the S&P500 up 0.3% overnight and the NASDAQ up 0.8%, both hitting fresh record highs.

The weakness in the GBP has filtered through to other currencies, with the EUR falling 0.6% and the AUD and NZD down around 0.7% over the past 24 hours. The USD is stronger by default, by around 0.5% on a BBDXY basis, with that index again approaching its year-to-date highs. Firm risk appetite, reflected in the continued rally in equity markets, hasn't provided much support to risk-sensitive currencies overnight, including the NZD, which is back down around 0.71.

There hasn't been much economic data overnight but, of note, US initial jobless claims hit a new post-Covid low, at 269k, indicative of a strengthening labour market. The market's focus is on the nonfarm payrolls report tonight, with Powell having indicated that it is the employment side of the Fed's mandate that is holding them back from tightening policy.

OPEC+ approved a 400k barrel per day increase in oil supply from next month, continuing its gradual approach to increasing oil supply and resisting US demands for greater production. The decision was well flagged, and crude oil futures are down around 1% overnight, with Brent crude oil trading around the \$80 mark.

Curve steepening was the theme in the domestic rates market yesterday, mirroring the post-FOMC moves in the US, with 5 and 10-year NZ swap rates 5bps higher on the session against an unchanged 2-year rate. Prior to yesterday, the dominant trend has been curve flattening as the market has increased its expectations of RBNZ OCR hikes. The yield curve, measured by the difference between 5 and 10-year swap rates, is just 7bps, near its post-GFC low of 2bps. We should expect lower domestic rates today off the back of the overnight rates moves.

All eyes are on the nonfarm payrolls report tonight, with the market consensus for a 450k jobs gain in October and a 0.1% decline in the unemployment rate, to 4.7%. The market will also be watching the average hourly earnings

data given wage growth has significantly exceeded expectations over the past few months, a sign that the labour market is extremely tight. There shouldn't be any surprises from the RBA's Statement of Monetary Policy following the release of its monetary policy statement (and Governor Lowe's press conference) earlier in the week.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA Statement on Monetary Policy				13:30
UK	BOE's Ramsden, Pill speak.				01:15
US	Change in Nonfarm Payrolls (k)	Oct	450	194	01:30
US	Unemployment Rate (%)	Oct	4.7	4.8	01:30
US	Average Hourly Earnings (m/m%)	Oct	0.4	0.6	01:30
US	Average Hourly Earnings (y/y%)	Oct	4.9	4.6	01:30
CA	Unemployment Rate (%)	Oct	6.8	6.9	01:30
CA	Employment change (k)	Oct	41.6	157	01:30

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7104	-0.8	0.7095	0.7148	CHF	0.9125	+0.1		S&P 500	4,672	+0.2	35.7	Oil (Brent)	81.42	-0.8
AUD	0.7393	-0.7	0.7383	0.7444	SEK	8.598	+0.7		Dow	36,043	-0.3	29.4	Oil (WTI)	79.94	-1.2
EUR	1.1547	-0.6	1.1528	1.1588	NOK	8.566	+0.7		Nasdaq	15,943	+0.8	37.5	Gold	1793.1	+1.7
GBP	1.3487	-1.5	1.3471	1.3670	HKD	7.784	-0.0		Stoxx 50	4,333	+0.6	37.1	HRC steel	1790.0	+0.3
JPY	113.68	-0.3	113.51	114.28	CNY	6.397	-0.1		FTSE	7,280	+0.4	23.7	CRB	235.8	-1.4
CAD	1.2469	+0.6			SGD	1.351	+0.3		DAX	16,030	+0.4	30.1	Wheat Chic.	787.3	-0.7
NZD/AUD	0.9609	-0.1			IDR	14,366	+0.4		CAC 40	6,988	+0.6	41.9	Sugar	19.63	+1.2
NZD/EUR	0.6152	-0.2			THB	33.36	+0.2		Nikkei	29,794	+0.9	23.6	Cotton	116.66	-1.9
NZD/GBP	0.5267	+0.7			KRW	1,183	+0.1		Shanghai	3,527	+0.8	6.2	Coffee	208.6	-0.5
NZD/JPY	80.76	-1.1			TWD	27.87	+0.0		ASX 200	7,428	+0.5	21.0	WM powder	4000.0	+0.0
NZD/CAD	0.8858	-0.2			PHP	50.63	+0.1		NZX 50	12,944	-0.4	5.7	Australian Futures		
NZ TWI	75.67	-0.5											3 year bond	98.955	0.05
													10 year bond	98.22	0.07

Interest Rates							NZ Government Bonds			NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	Net Day	Last	Last	Last	Last	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	0.25	0.14	0.62	1.55	USD	1.51	-0.09	NZGB 5 1/2 04/15/23	1.59	-0.01	1 year	1.59	0.00
AUD	0.10	0.05	0.80	1.95	AUD	1.83	-0.02	NZGB 0 1/2 05/15/26	2.29	0.00	2 year	2.26	0.00
NZD	0.50	0.80	2.22	2.63	NZD	2.61	0.04	NZGB 0 1/4 05/15/28	2.44	0.02	5 year	2.62	0.06
EUR	0.00	0.06	-0.37	0.15	GER	-0.22	-0.06	NZGB 1 1/2 05/15/31	2.56	0.04	7 year	2.65	0.05
GBP	0.10	0.23	1.03	1.19	GBP	0.94	-0.13	NZGB 2 05/15/32	2.61	0.04	10 year	2.70	0.05
JPY	-0.05	-0.08	0.02	0.12	JPY	0.07	-0.01	NZGB 1 3/4 05/15/41	2.86	0.04	15 year	2.79	0.06
CAD	0.25	0.48	1.46	2.09	CAD	1.64	-0.10	NZGB 2 3/4 05/15/51	2.93	0.04			

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:50

Source: Bloomberg

NZD exchange rates

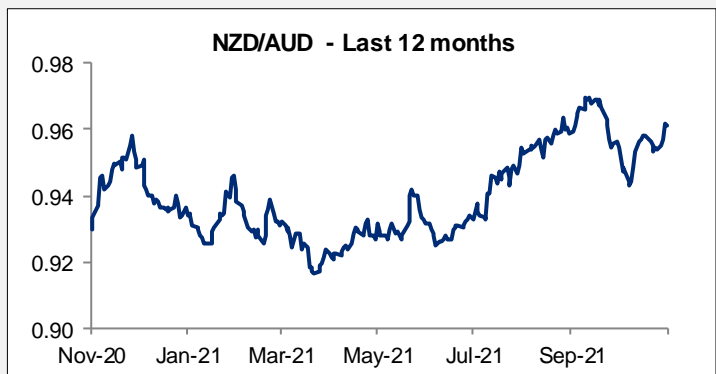
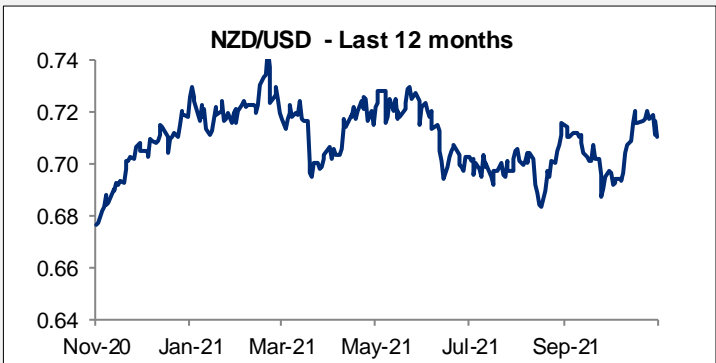
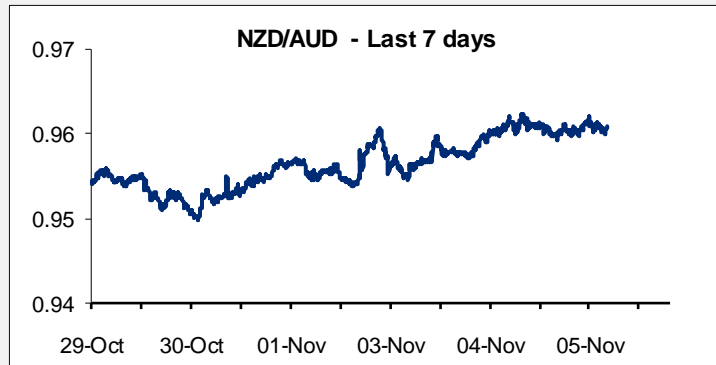
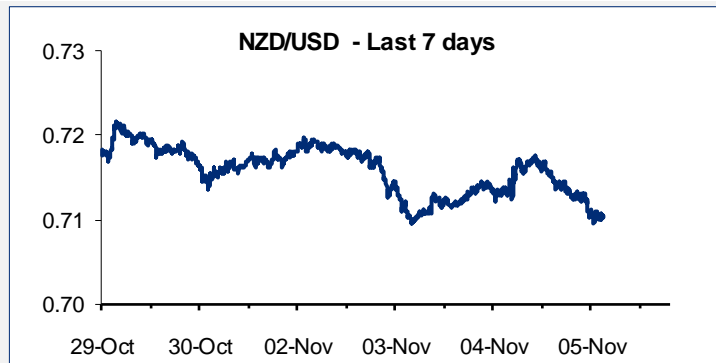
5/11/2021	6:49 a.m.	Prev. NY close
USD	0.7104	0.716
GBP	0.5267	0.5231
AUD	0.9609	0.9613
EUR	0.6152	0.6166
JPY	80.76	81.63
CAD	0.8858	0.8872
CHF	0.6482	0.6528
DKK	4.5753	4.5863
FJD	1.4748	1.4818
HKD	5.5296	5.5736
INR	52.90	53.47
NOK	6.0851	6.0911
PKR	120.74	121.71
PHP	35.96	36.21
PGK	2.4926	2.5123
SEK	6.1077	6.1134
SGD	0.9600	0.9650
CNY	4.5446	4.5871
THB	23.73	23.85
TOP	1.5943	1.5922
VUV	78.23	79.08
WST	1.8085	1.8133
XPF	72.90	73.57
ZAR	10.8524	10.9335

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.83	-2.57
3 Months	-11.02	-10.68
6 Months	-29.76	-28.76
9 Months	-56.53	-54.70
1 Year	-88.11	-86.11

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.30	-4.69
3 Months	-19.99	-18.99
6 Months	-45.14	-42.69
9 Months	-78.00	-74.17
1 Year	-112.38	-107.70



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