

8 November 2022



## Events Round-Up

GE: Industrial production (m/m%), Sep: 0.6 vs. 0.1 exp.

CH: Exports (USD, y/y%), Oct: -0.3 vs. 4.5 exp.

CH: Imports (USD, y/y%), Oct: -0.7 vs. 0.0 exp.

## Good Morning

Rumours last week of China looking to ease its zero-COVID policy continue to cause some market volatility. But there hasn't been much net damage from the weekend news of China trying to quash that rumour, with the NZD and AUD recovering much of the losses seen in early trading on Monday, with the USD broadly weaker overnight. Global equities show small gains while global bond rates have pushed higher.

On paper it is a fairly uneventful week ahead by recent standards, with the US mid-term elections and US CPI release the key event risks. The market is unfazed by the elections, which look likely to see the House handed over to the Republicans and causing some policy gridlock, not a bad thing for those who consider government policies tend to do more harm than good. A good showing by the Republicans will likely see Trump formally confirm another run for Presidency in 2024. The US CPI, due Thursday night, looks like the bigger event risk for the market.

Risk appetite kicked off the week on a sour note, with the market digesting the weekend news from China that there was no change to its zero-COVID policy, it would "unswervingly" adhere to the current COVID controls, following rumours to the contrary. This put the NZD and AUD on a weaker footing. US equity futures opened weak, not helped by Apple issuing a statement that shipments of its newest premium iPhones will be lower than previously expected after China lockdowns affected operations at a supplier's factory.

As the day proceeded it was clear that the market was prepared to take a "where there's smoke, there's fire" view on China's zero-COVID policy, assuming that there probably will be some easing of restrictions, even if over a long period of time, enough to provide a glimmer of hope about China's economic path through 2023. Hong Kong and Chinese equity markets closed on a positive note yesterday, up 2.7% and 0.2% respectively for the main indices, following the strong 6-9% gains seen last week.

The WSJ has helped feed that view, with a "China Weighs Gradual Zero-Covid Exit but Proceeds with Caution" headline, reporting that "Chinese officials have grown concerned about the costs of their zero-tolerance approach to smothering Covid-19 outbreaks...but they are weighing those against the potential costs of reopening for public health and support for the Communist Party. As a result, they are proceeding cautiously despite the deepening impact of the Covid-19 policies...pointing to a long path to anything approaching pre-pandemic levels of activity, with the timeline stretching to sometime near the end of next year."

Chinese trade data were weaker than expected on both the exports and imports side, both down slightly year-on-year in USD terms – exports hit by weaker global demand and imports hit by weaker domestic demand, with local lockdown restrictions thrown into the mix.

After falling below 0.5850 yesterday morning, down almost 1½% from last week's close, the NZD has recovered strongly back over 0.59. It met some resistance just over 0.5940, as it did last week, and currently sits at 0.5930. The AUD has recovered from a low of just over 0.64 to 0.6470, with NZD/AUD fairly steady around the 0.9160 mark. GBP shows the largest net move for the day, up over 1% to 1.15, on no obvious news, but with traders reporting a recovery after being whacked after the BoE's dovish outlook on rates towards the end of last week. EUR shows modest gains back to just over parity. NZD crosses are on the weak side, with NZD/GBP down to 0.5150 and NZD/EUR down to 0.5920.

Global bond yields have pushed higher, with traders noting a deluge of corporate supply perhaps weighing on the market – Europe seeing the most new corporate bonds offered in weeks and at least 10 US investment grade offerings to kick off the new week. US 2 and 10-year Treasuries are up 4-6bps from last week's close to 4.72% and 4.20% respectively.

The domestic rates market was quiet but swap spreads widened on some payaside pressure, with rates up 4-5bps across the curve, against a lift of only 1bp for NZGBs, the 10-year NZGB closing the day at 4.54%.

In the day ahead there are only second-tier economic releases. Domestically, the RBNZ survey of expectations is released and there will be some interest in the 2-years-ahead measure of inflation expectations. The Fed's Barkin

speaks during local trading hours but we already heard from him at the end of the week, where he said it was “entirely conceivable” the Fed may need to take the policy rate above 5%, but “it’s not a plan”.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

	Period	Cons.	Prev.	NZT
US	Fed's Barkin speaks at event on inflation			12:00
AU	Westpac consumer conf	Nov	83.7	12:30
AU	NAB business conditions (net%)	Oct	25	13:30
NZ	RBNZ 2yr inflation exp (%)	Q4	3.07	15:00
US	NFIB small business opt.	Oct	91.3 92.1	00:00

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	0.5928	-0.1	0.5873	0.5946	CHF	0.9888	-0.6		S&P 500	3,780	+0.2	-19.5	Oil (Brent)	98.47	-0.1
AUD	0.6471	+0.0	0.6407	0.6490	SEK	10.840	-0.5		Dow	32,617	+0.7	-10.2	Oil (WTI)	92.60	-0.0
EUR	1.0021	+0.6	0.9924	1.0027	NOK	10.228	-0.2		Nasdaq	10,460	-0.1	-34.5	Gold	1679.6	+0.2
GBP	1.1508	+1.1	1.1291	1.1508	HKD	7.850	+0.0		Stoxx 50	3,709	+0.6	-15.0	HRC steel	664.0	-2.1
JPY	146.54	-0.1	146.09	147.57	CNY	7.231	+0.6		FTSE	7,300	-0.5	-0.1	CRB	287.6	+3.3
CAD	1.3494	+0.1			SGD	1.402	-0.4		DAX	13,534	+0.5	-15.7	Wheat Chic.	867.0	+0.0
NZD/AUD	0.9161	-0.1			IDR	15,708	-0.2		CAC 40	6,417	+0.0	-8.9	Sugar	18.66	-0.3
NZD/EUR	0.5916	-0.7			THB	37.36	+0.1		Nikkei	27,528	+1.2	-6.7	Cotton	87.55	+0.7
NZD/GBP	0.5151	-1.2			KRW	1,402	-1.2		Shanghai	3,078	+0.2	-12.0	Coffee	166.7	-2.8
NZD/JPY	86.87	-0.1			TWD	32.10	-0.3		ASX 200	6,934	+0.6	-7.0	WM powder	3300	-1.0
NZD/CAD	0.7999	+0.1			PHP	58.58	+0.0		NZX 50	11,290	+0.5	-13.4	<b>Australian Futures</b>		
NZ TWI	70.75	-0.1											3 year bond	96.52	-0.05
													10 year bond	96.03	-0.07

Interest Rates													
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last		Last				
USD	4.00	4.55	5.07	4.22	USD	4.20	0.04	NZGB 0 1/2 05/15/24	4.62	0.01	1 year	5.12	0.03
AUD	2.85	3.06	4.03	4.65	AUD	3.91	0.06	NZGB 4 1/2 04/15/27	4.56	0.01	2 year	5.20	0.04
NZD	3.50	4.17	5.20	4.80	NZD	4.54	0.01	NZGB 3 04/20/29	4.52	0.01	5 year	4.88	0.05
EUR	1.50	1.73	3.08	3.15	GER	2.34	0.05	NZGB 1 1/2 05/15/31	4.53	0.01	7 year	4.82	0.05
GBP	3.00	3.43	4.42	3.85	GBP	3.64	0.10	NZGB 2 05/15/32	4.54	0.01	10 year	4.80	0.05
JPY	-0.05	-0.03	0.18	0.67	JPY	0.26	0.00	NZGB 1 3/4 05/15/41	4.87	0.01	15 year	4.83	0.05
CAD	3.75	4.62	4.62	4.06	CAD	3.57	0.06	NZGB 2 3/4 05/15/51	4.82	0.01			

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

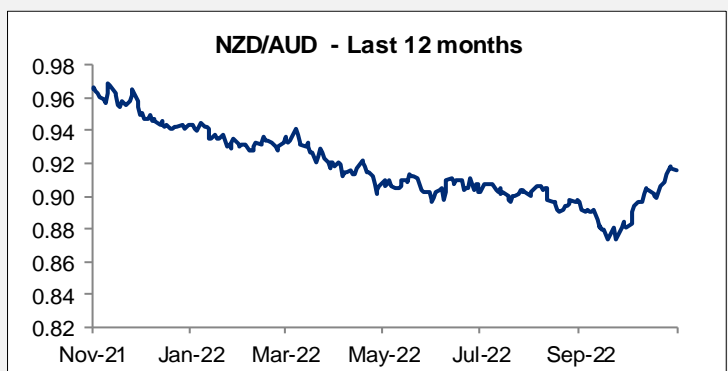
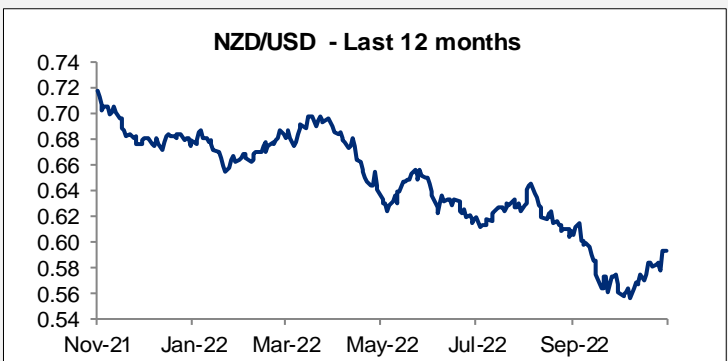
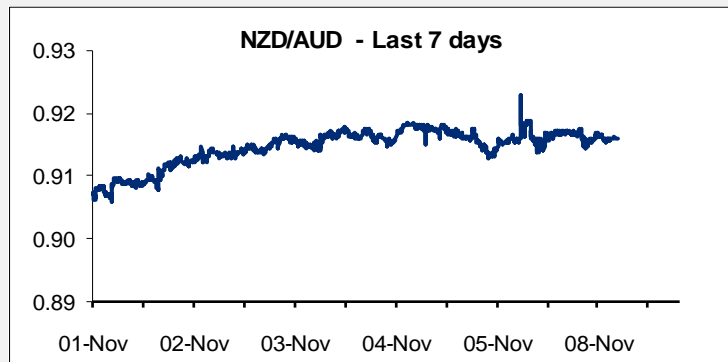
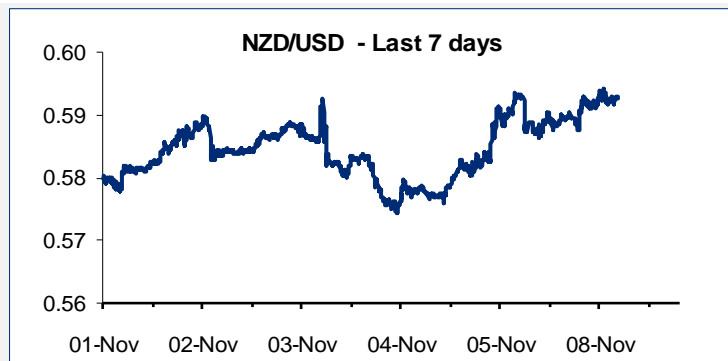
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:52

Source: Bloomberg

**NZD exchange rates**

8/11/2022	6:52 am	Prev. NY close
USD	0.5928	0.5931
GBP	0.5151	0.5212
AUD	0.9161	0.9167
EUR	0.5916	0.5957
JPY	86.87	86.96
CAD	0.7999	0.7994
CHF	0.5862	0.5902
DKK	4.4004	4.4318
FJD	1.3540	1.3569
HKD	4.6534	4.6557
INR	48.56	48.89
NOK	6.0631	6.0757
PKR	131.41	131.60
PHP	34.74	34.73
PGK	2.0873	2.0840
SEK	6.4260	6.4634
SGD	0.8309	0.8344
CNY	4.2867	4.2615
THB	22.18	22.28
TOP	1.4189	1.4199
VUV	73.35	73.09
WST	1.6559	1.6463
XPF	71.32	71.66
ZAR	10.5112	10.6187



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	2.24	2.68
3 Months	9.18	9.84
6 Months	15.04	16.54
9 Months	15.34	17.64
1 Year	14.87	18.51

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.08	-4.09
3 Months	-19.90	-18.16
6 Months	-43.98	-40.26
9 Months	-69.35	-63.60
1 Year	-91.67	-82.02

## Contact Details

### BNZ Research

**Stephen Toplis**

Head of Research  
+64 4 474 6905

**Craig Ebert**

Senior Economist  
+64 4 474 6799

**Doug Steel**

Senior Economist  
+64 4 474 6923

**Jason Wong**

Senior Markets  
Strategist  
+64 4 924 7652

**Nick Smyth**

Senior Interest Rates  
Strategist  
+64 4 924 7653

### Main Offices

**Wellington**

Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

**Christchurch**

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

**Analyst Disclaimer:** The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

**New Zealand:** The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.