

1 October 2021



## Events Round-Up

NZ: Building permits (m/m%), Aug: 3.8 vs. 2.1 prev.  
 NZ: ANZ Activity outlook, Sep (final): 18.2 vs. 18.2 prev.  
 NZ: ANZ Business confidence, Sep (final): -7.2 vs. -6.8 prev.  
 CH: Manufacturing PMI, Sep: 49.6 vs. 50 exp.  
 CH: Non-manufacturing PMI, Sep: 53.2 vs. 49.8 exp.  
 CH: Caixin Manufacturing PMI, Sep: 50 vs. 49.5 exp.  
 GE: CPI (y/y%), Sep: 4.1 vs. 4 exp.  
 US: Initial jobless claims (k), 25-Sep: 362 vs. 330 exp.  
 US: Chicago PMI, Sep: 64.7 vs. 65 exp.

## Good Morning

There has been plenty of news overnight but with no clear theme in asset class movements. Equity markets are generally lower, with the S&P500 set for its worst month since March last year, the US 10-year rate is little changed, while the USD has given back a little of the previous day's sharp appreciation. The NZD has edged up towards 0.69.

Equity markets remain under pressure amidst a long list of concerns amongst investors. Key amongst these concerns are elevated inflationary pressures, in part due to supply disruptions and surging energy prices, which could see earlier monetary policy tightening from central banks such as the Fed, in turn exacerbating any slowdown in global growth. In his testimony to Congress overnight, Fed Chair Powell alluded to the "difficult trade-off" which the Fed would face if inflation doesn't subside, as it is expecting. Faced with a negative supply shock, which the current situation certainly has elements of, central banks can tighten policy to control inflation, but this would be at the expense of keeping unemployment higher than otherwise. The alternative, running monetary policy loose to get unemployment lower, runs the risk that inflation pressures continue to build, ultimately becoming entrenched in expectations.

The S&P500 is down 0.3% overnight, having been down as much as 1% at one stage, and it is set for its lowest close in 2½ months. The S&P500 is more than 4% lower in September, a seasonally bad month for equity markets. Tech stocks have held up better overnight, but they are also down heavily on the month (NASDAQ +0.4% overnight, -4.5% in September).

Another lingering concern among investors is the still unresolved issue of the US government debt ceiling. Treasury Secretary Yellen has warned that the government will run out of cash on October 18<sup>th</sup>, potentially leading to a technical default (late payment) on some of its debt obligations with unpredictable spill over impacts to broader markets. Previous instances of brinksmanship around the debt ceiling have always been resolved in time, albeit sometimes at the last minute, and that is everyone's working assumption again. A US government shutdown is set to be averted, with a stopgap bill set to be passed which will fund the government until early December.

The US 10-year rate traded up near its recent 3-month high overnight, at 1.55%, before reversing back to 1.52% over the last couple of hours, now unchanged on the day. Month-end related demand may have helped US bonds on the day. Earlier, 10-year rates were higher in Europe, by 1-3bps, with European inflation expectations hovering near 8-year highs (10-year inflation swap at 1.88%).

The USD has given back a little of its sharp appreciation seen earlier in the week. The Bloomberg USD index (BBDXY) is down 0.2% overnight although it continues to hover near an 11-month high. The BBDXY is up more than 1% since the Fed delivered its hawkish message last week.

There is no clear theme to currency performance overnight either, with an unusual combination of the JPY and AUD heading the currency leader board, both up by around 0.6% over the past 24 hours. The EUR, in contrast, is down 0.3%, and has fallen to its lowest level since July last year, below the key 1.16 level. The NZD is in between these two extremes, up 0.4% since this time yesterday and back close to the 0.69 mark. The NZD/AUD cross continues to drift lower, to around 0.9550, a six-week low.

In China, Bloomberg reported that the Vice Premier had ordered state-owned energy companies to secure supplies for winter "at all costs", to avert any blackouts. Oil prices rebounded after the report, with Brent crude oil trading near a three-year high, while Chinese coal futures earlier hit a record high.

Signs of the hit economic activity from recent power shortages and rationing in China were evident in the yesterday's Chinese manufacturing PMI, which fell into contractionary territory for the first time since early last year, at 49.6. More encouragingly, the non-manufacturing survey rebounded much more than expected, to 53.2,

while the Caixin manufacturing PMI, which surveys smaller businesses, bounced back to 50. Markets remain wary about the Chinese growth outlook given potential spill over effects to the real estate market from distressed developer Evergrande, the ongoing energy crisis and still lingering Covid-19 risks.

On Evergrande, media reported it had failed to make coupon payments on another USD bond on Tuesday. With its USD bonds trading at around 25 cents in the dollar, investors have already priced an almost certain default. The consensus is that the authorities will protect those who have paid deposits for houses and unpaid suppliers, while foreign currency bond holders will likely be down the bottom of the priority list in any state-led restructuring. The PBOC continues to inject liquidity into the banking system (a net ¥40b yesterday) and reportedly urged banks not to unnecessarily tighten lending standards for other developers and homebuyers. So far, there are limited signs of broader contagion from Evergrande into global markets, seemingly reflecting investor confidence that the Chinese authorities have the ability and willingness to contain any major fallout from a default.

Turning to domestic developments, the final release of the ANZ business survey for September was little changed from the preliminary version, with business confidence and activity indicators continuing to hold up remarkably well despite the Auckland lockdown while pricing intentions remain near record highs. 19 Covid-19 cases were announced yesterday, a welcome fall from the previous day's 45 new cases, although news overnight that another two cases were detected at an Auckland hospital is a reminder that there is still community transmission.

There was little movement in the NZ swaps curve yesterday as the market bides time until the RBNZ Monetary Policy Report next week. Pricing for the October meeting has settled around 0.46%, implying around an 85% chance of a 25bps hike. Government bonds saw more

action, with yields higher by 3bps at the 10-year point and 6bps on the recently issued 30-year bond. The moves higher in long-dated bond yields followed a very soft tender for \$100m 2033 maturity bonds which saw only \$105m of bonds.

In the session ahead, there is set to be a vote in Congress on the \$1.2tn bipartisan US infrastructure bill although its progress is not assured amidst infighting amongst Democrats. There is also plenty of data to be released over the coming 24 hours. On the inflation front, Eurozone headline CPI is expected to jump to 3.3% y/y, which would be its highest level since late 2008, while the Fed's preferred measure, the Core PCE deflator, is expected to dip to 3.5% y/y, which would still be near its high level since the early 1990s. The ISM manufacturing survey is expected to remain very elevated, at almost 60, while Japan sees the release of the Tankan survey. There will also be focus on US fiscal negotiations, with Locally, the ANZ consumer confidence index will be worth watching for lockdown-related impacts.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Consumer Confidence Index	Sep		109.6	10:00
JN	Tankan Large Mfg Index	3Q	13	14	12:50
EC	CPI Core (y/y%)	Sep P	1.9	1.6	22:00
EC	CPI (y/y%)	Sep	3.3	3	22:00
CA	GDP (m/m%)	Jul	-0.2	0.7	01:30
US	Personal Income (m/m%)	Aug	0.2	1.1	01:30
US	Personal Spending (m/m%)	Aug	0.7	0.3	01:30
US	Core PCE Deflator (y/y%)	Aug	3.5	3.6	01:30
US	ISM Manufacturing	Sep	59.5	59.9	03:00

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	0.6894	+0.3	0.6860	0.6922	CHF	0.9341	-0.0		S&P 500	4,328	-0.7	28.7	Oil (Brent)	78.46	-0.2
AUD	0.7218	+0.6	0.7187	0.7257	SEK	8.771	-0.4		Dow	33,997	-1.1	22.4	Oil (WTI)	74.89	+0.1
EUR	1.1567	-0.3	1.1563	1.1610	NOK	8.759	-0.2		Nasdaq	14,520	+0.1	30.0	Gold	1753.9	+1.9
GBP	1.3457	+0.2	1.3416	1.3517	HKD	7.785	-0.0		Stoxx 50	4,048	-0.8	26.8	HRC steel	1900.0	+0.0
JPY	111.39	-0.5	111.32	112.08	CNY	6.445	-0.4		FTSE	7,086	-0.3	20.8	CRB	227.2	-0.6
CAD	1.2689	-0.5			SGD	1.359	-0.1		DAX	15,261	-0.7	19.6	Wheat Chic.	732.8	+1.5
NZD/AUD	0.9551	-0.2			IDR	14,313	+0.1		CAC 40	6,520	-0.5	35.7	Sugar	19.83	+5.2
NZD/EUR	0.5960	+0.6			THB	33.68	-0.8		Nikkei	29,453	-0.3	27.0	Cotton	103.94	+3.0
NZD/GBP	0.5123	+0.1			KRW	1,184	+0.2		Shanghai	3,568	+0.9	10.9	Coffee	194.0	+0.5
NZD/JPY	76.79	-0.2			TWD	27.82	+0.1		ASX 200	7,332	+1.9	24.8	WM powder	3780.0	+0.1
NZD/CAD	0.8748	-0.2			PHP	51.01	+0.3		NZX 50	13,276	+1.2	12.4	<b>Australian Futures</b>		
NZ TWI	73.84	+0.1											3 year bond	99.525	0.00
													10 year bond	98.49	-0.02
Interest Rates															
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields						
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day	Last		Last					
USD	0.25	0.13	0.39	1.54	USD	1.52	-0.00	NZGB 5 1/2 04/15/23	1.00	-0.01	1 year	1.08	-0.00		
AUD	0.10	0.02	0.28	1.65	AUD	1.49	0.01	NZGB 0 1/2 05/15/26	1.53	-0.02	2 year	1.43	-0.01		
NZD	0.25	0.65	1.43	2.27	NZD	2.00	0.01	NZGB 0 1/4 05/15/28	1.76	0.00	5 year	1.88	0.00		
EUR	0.00	0.06	-0.43	0.16	GER	-0.20	0.01	NZGB 1 1/2 05/15/31	2.00	0.03	7 year	2.05	0.00		
GBP	0.10	0.08	0.72	1.18	GBP	1.02	0.03	NZGB 2 05/15/32	2.09	0.03	10 year	2.25	0.00		
JPY	-0.05	-0.08	0.01	0.11	JPY	0.07	-0.01	NZGB 1 3/4 05/15/41	2.60	0.05	15 year	2.46	0.02		
CAD	0.25	0.45	0.96	1.96	CAD	1.51	0.01	NZGB 2 3/4 05/15/51	2.79	0.06					

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

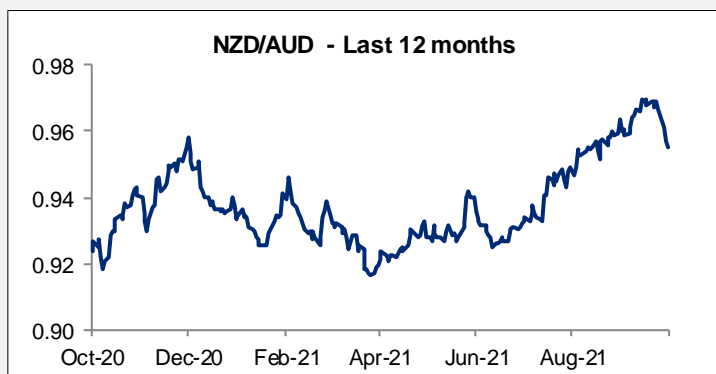
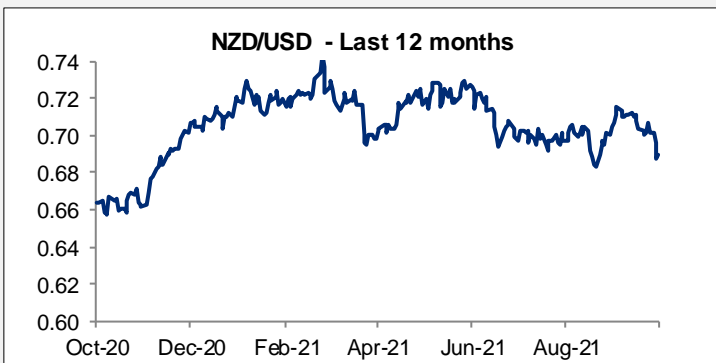
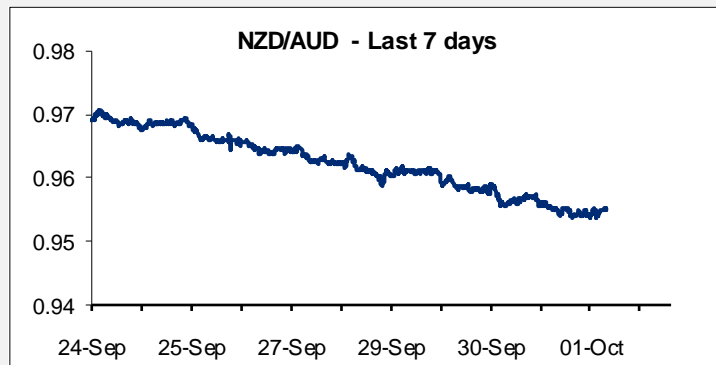
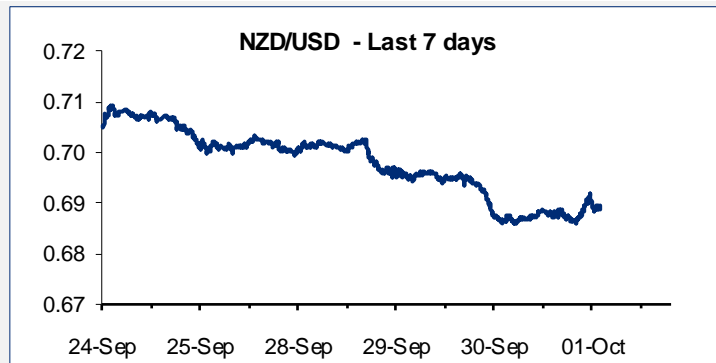
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:55

Source: Bloomberg

## NZD exchange rates

1/10/2021	6:55 a.m.	Prev. NY close
USD	0.6894	0.6869
GBP	0.5123	0.5116
AUD	0.9551	0.9572
EUR	0.5960	0.5923
JPY	76.79	76.91
CAD	0.8748	0.8763
CHF	0.6440	0.6418
DKK	4.4322	4.4043
FJD	1.4581	1.4522
HKD	5.3673	5.3481
INR	51.18	50.87
NOK	6.0381	6.0249
PKR	117.63	116.58
PHP	35.15	35.03
PGK	2.4215	2.4102
SEK	6.0465	6.0505
SGD	0.9370	0.9349
CNY	4.4430	4.4448
THB	23.32	23.19
TOP	1.5562	1.5377
VUV	76.96	76.68
WST	1.7782	1.7888
XPF	70.93	70.58
ZAR	10.4064	10.3769



## NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.29	-1.04
3 Months	-5.68	-5.17
6 Months	-16.66	-15.66
9 Months	-33.85	-32.10
1 Year	-53.87	-51.89

## NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.19	-2.66
3 Months	-12.86	-11.94
6 Months	-31.06	-29.06
9 Months	-56.47	-52.79
1 Year	-85.18	-81.08

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