

2 December 2022



Events Round-Up

CH: Caixin manufacturing PMI, Nov: 49.4 vs. 48.9 exp.

EC: Unemployment rate (%), Oct: 6.5 vs. 6.6 exp.

US: Personal income (m/m%), Oct: 0.7 vs. 0.4 exp.

US: Personal spending (m/m%), Oct: 0.8 vs. 0.8 exp.

US: PCE core deflator (m/m%), Oct: 0.2 vs. 0.3 exp.

US: PCE core deflator (y/y%), Oct: 5.0 vs. 5.0 exp.

US: Initial jobless claims (k), Nov-26: 225 vs. 235 exp.

US: ISM manufacturing, Nov: 49.0 vs. 49.7 exp.

Good Morning

The USD remains under pressure, falling further after Fed Chair Powell's speech yesterday and some softer overnight data helping sustain the move. The NZD traded as high as 0.64 overnight, continuing its outperforming run while NZD/AUD continues to appreciate. JPY and GBP have also put in very strong performances over the past 24 hours. US Treasury yields have pushed lower while the S&P500 has eased back after closing above its 200-day moving average yesterday. Lower global rates helped push down NZ rates yesterday.

Soon after we went to print yesterday, Fed Chair Powell delivered a speech that was interpreted as dovish by the market, even though he treaded familiar ground. He cemented in market expectations for a dialled-down hike of 50bps this month but reiterated that rates will need to be restrictive for some time. He added that the October inflation data were a "welcome surprise" even though it will take "substantially more evidence" to give comfort inflation is actually declining and by any standard "inflation remains much too high".

The market evidently saw Powell as not as hawkish as feared, fuelling higher risk sentiment which sent the USD broadly lower, UST yields much lower and the SPX surging to close up over 3% and above its 200-day moving average for the first time since April. The lower US rates and weaker USD trends have continued as the new month begins – the 10-year rate down to 3.55%, back down to the early-October low, and the DXY index over 1% to its lowest level in over three months – while equities have taken a breather, with the S&P500 showing a modest fall into afternoon trading.

The USD and rates moves were sustained after the market digested some softer US economic data. The ISM manufacturing composite fell to 49.0, its lowest level since May 2020, a little below market expectations but not as dire as the very weak Chicago PMI indicator released yesterday. Supporting the move were new orders (47.2) and employment (48.4), all at sub-50 levels. The prices paid index fell for the eighth straight month to 43.0, and weaker inflation was backed up by further signs of easing in the supply-side indicators.

The core PCE deflator was lower than expected at 0.2% m/m but upward revisions saw the annual figure in line at 5.0%. Still, momentum for inflation is to the downside, even if, as noted, the Fed is looking for "substantially more evidence". The consumer spending figures were strong, as expected and boosted by auto sales, and puts Q4 on a solid footing, but there is a question mark over future spending as the labour market eases. Furthermore, spending has been supported by a running down of savings, with the savings rate now down to a 17-year low, which also raises a question mark over the sustainability of spending growth.

Initial jobless claims fell back to 225k last week, possibly distorted by distortions around the Thanksgiving holiday, but the continuing claims indicator showed the biggest jump for the year (57k) to 1608k, suggesting that those that are losing jobs are finding it harder to get re-employed. We have been watching this measure closely and the recent rise (23% above the low of the past year) now puts the level consistent with economic recession (an indicator that has successfully picked all of the last eight recessions since 1970 once a certain threshold has been met).

Against the backdrop of a very weak USD, the NZD traded as high as 0.64 overnight, adding to the substantial gains seen since mid-October and seeing it up 2½% from this time yesterday. We thought it was overdue for some consolidation, but momentum has remained strong. Indeed, the AUD is up "only" 1½% from this time yesterday, and flat from the NZ close, seeing NZD/AUD surging to 0.9360, a level not seen since March.

Like the NZD, GBP and JPY have also surged higher, the former up as high as 1.2310 overnight and USD/JPY down to 135.50. While a backdrop of lower global rates has clearly been yen-supportive, it is less obvious why GBP is so well bid. A lagging euro sees EUR/GBP testing 3-month

lows. Like NZD/USD, NZD/EUR continues to show a strong recovery and it met some resistance around 0.6090 overnight.

The yuan has been well supported against a backdrop of obvious signs that the government is dealing with COVID differently now. In a further easing of China's COVID restrictions, Beijing will allow low-risk patients to do home isolation if they choose. This will help the economy as many folk have had fears of going out and being "pinged" and sent to grotty government quarantine facilities. Relaxed restrictions will encourage folk to get out more. Other cities are likely to follow the move. USD/CNY is down over ½% to 7.05.

Reports indicate that the EU will set the price cap on Russian oil at USD60 per barrel, a figure that will squeeze the country's oil revenues while keeping global supplies steady. The figure will be regularly reviewed and should be "at least 5% below the average market price for Russian oil and petroleum products". Oil prices show modest gains, supported by a weaker USD and more optimism around future Chinese demand as COVID-related restrictions ease. Helping the supply side, OPEC cut crude oil production by just over 1 million barrels a day last month.

Domestic rates whipsawed yesterday, as global forces sent them lower from the open, before rates reversed course and headed higher. The government tender saw good demand for the 2027 and 2051 bonds, but a rare fail for

the 2033s, with submitted bids some \$11m below the tendered \$200m – likely more a stock-specific issue than anything sinister the government has to worry about. Rates across the swaps and NZGB curve ended the day down 2-5bps. The global backdrop has supported a paring of NZ rate hike expectations, with the OIS market now pricing in a better chance of a 50bps than 75bps hike at the next February meeting, at 4.86%.

For the day ahead the focus turns to the US employment report, where the consensus is picking further moderation in employment growth to 200k and further easing in average hourly earnings inflation, to 0.3% m/m and 4.7% y/y. After the surprise jump in the unemployment rate last month, the consensus is picking a steady 3.7%.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Terms of trade (q/q%)	Q3	0.5	-2.4	10:45
CA	Unemployment rate (%)	Nov	5.3	5.2	02:30
US	Change in nonfarm payrolls (k)	Nov	200	261	02:30
US	Unemployment rate (%)	Nov	3.7	3.7	02:30
US	Average hrly earnings (m/m%)	Nov	0.3	0.4	02:30
US	Average hrly earnings (y/y%)	Nov	4.6	4.7	02:30

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price				
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day	
NZD	0.6378	+1.3	0.6312	0.6400	CHF	0.9379	-0.8	S&P 500	4,073	-0.2	-9.8	Oil (Brent)	88.01	+1.1	
AUD	0.6809	+0.3	0.6783	0.6845	SEK	10.325	-1.7	Dow	34,387	-0.6	1.1	Oil (WTI)	82.16	+2.0	
EUR	1.0513	+1.0	1.0394	1.0533	NOK	9.738	-1.1	Nasdaq	11,481	+0.1	-24.7	Gold	1802.3	+3.2	
GBP	1.2267	+1.8	1.2070	1.2310	HKD	7.779	-0.4	Stoxx 50	3,985	+0.5	-4.7	HRC steel	670.0	+2.3	
JPY	135.40	-1.9	135.31	136.66	CNY	7.053	-0.5	FTSE	7,558	-0.2	5.4	CRB	279.8	+1.5	
CAD	1.3413	+0.0			SGD	1.354	-0.6	DAX	14,490	+0.6	-6.3	Wheat Chic.	785.5	-1.3	
NZD/AUD	0.9367	+1.0			IDR	15,563	-1.1	CAC 40	6,754	+0.2	-1.9	Sugar	19.66	+0.1	
NZD/EUR	0.6067	+0.2			THB	34.79	-0.9	Nikkei	28,226	+0.9	1.7	Cotton	85.98	-0.1	
NZD/GBP	0.5199	-0.4			KRW	1,300	-1.4	Shanghai	3,165	+0.4	-11.4	Coffee	165.8	-2.6	
NZD/JPY	86.36	-0.6			TWD	30.62	-0.6	ASX 200	7,354	+1.0	1.8	WM powder	3395	+1.3	
NZD/CAD	0.8555	+1.3			PHP	56.20	-0.7	NZX 50	11,655	+0.9	-8.0	Australian Futures			
NZ TWI	73.37	+0.6										3 year bond	96.92	0.05	
Interest Rates											10 year bond			96.56	0.07
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	4.78	4.59	3.50	USD	3.54	-0.06	NZGB 0 1/2 05/15/24	4.68	-0.02	1 year	5.26	-0.02		
AUD	2.85	3.05	3.64	4.04	AUD	3.48	-0.05	NZGB 4 1/2 04/15/27	4.28	-0.04	2 year	5.09	-0.05		
NZD	4.25	4.41	5.09	4.35	NZD	4.08	0.01	NZGB 3 04/20/29	4.15	-0.03	5 year	4.51	-0.02		
EUR	1.50	1.97	2.76	2.54	GER	1.81	-0.12	NZGB 1 1/2 05/15/31	4.10	-0.03	7 year	4.41	-0.04		
GBP	3.00	3.68	4.28	3.32	GBP	3.10	-0.06	NZGB 2 05/15/32	4.07	-0.02	10 year	4.35	-0.04		
JPY	-0.06	-0.05	0.18	0.65	JPY	0.25	0.00	NZGB 1 3/4 05/15/41	4.30	-0.02	15 year	4.38	-0.04		
CAD	3.75	4.75	4.26	3.34	CAD	2.86	-0.08	NZGB 2 3/4 05/15/51	4.24	-0.02					

* 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 07:05

Source: Bloomberg

NZD exchange rates

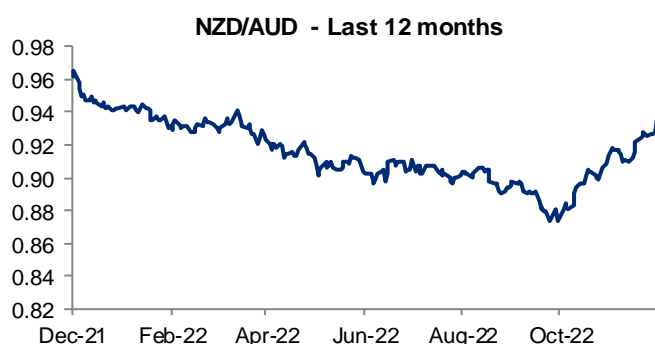
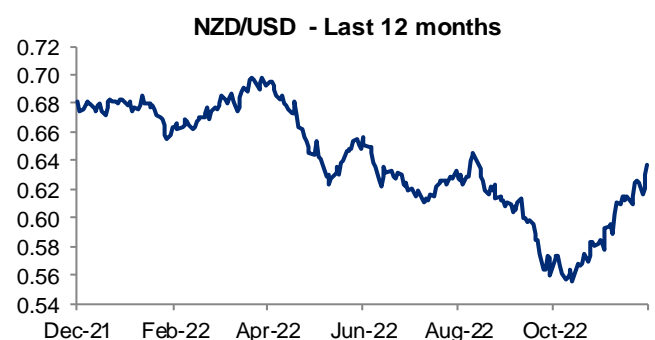
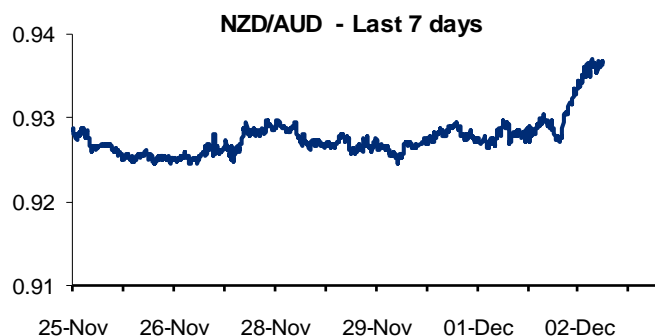
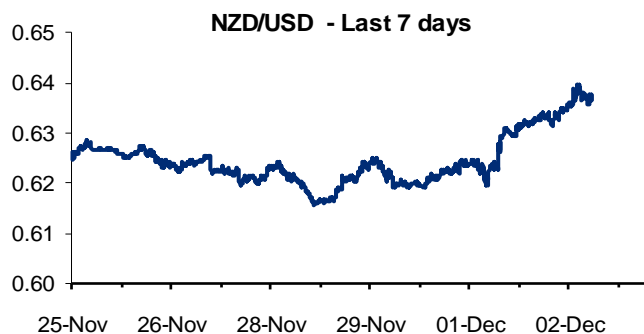
2/12/2022	7:06 am	Prev. NY close
USD	0.6378	0.6297
GBP	0.5199	0.5222
AUD	0.9367	0.9277
EUR	0.6067	0.6051
JPY	86.36	86.94
CAD	0.8555	0.8446
CHF	0.5982	0.5955
DKK	4.5115	4.5004
FJD	1.4073	1.3990
HKD	4.9617	4.9178
INR	51.80	51.28
NOK	6.2111	6.1994
PKR	142.67	141.12
PHP	35.84	35.63
PGK	2.2458	2.2173
SEK	6.5853	6.6103
SGD	0.8635	0.8573
CNY	4.4987	4.4661
THB	22.31	22.20
TOP	1.5071	1.4879
VUV	76.24	75.72
WST	1.7203	1.6960
XPF	73.55	72.74
ZAR	11.2152	10.8328

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	3.31	3.69
3 Months	8.11	8.81
6 Months	6.52	8.02
9 Months	1.29	4.01
1 Year	-4.08	-1.09

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.57	-7.63
3 Months	-25.52	-23.81
6 Months	-63.58	-60.01
9 Months	-100.01	-93.78
1 Year	-129.10	-120.85



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