

2 November 2021



Events Round-Up

CH: Caixin manufacturing PMI, Oct: 50.6 vs. 50.0 exp

US: ISM manufacturing, Oct: 60.8 vs. 60.5 exp.

Good Morning

Newsflow to begin the new week and month has been slow, but things will pick up pace as the week progresses. The lift in risk appetite seen through October, has spilled over into November, with fresh highs in global equity markets, a bid tone to commodity currencies, and global rates pushing higher.

It's a big week ahead, with the RBA, Fed, and Bank of England policy updates and key US economic data, including the ISM indices and non-farm payrolls at the end of the week. So plenty of event risk to keep investors on their toes.

That said, it has been a slow start to the week, with the US ISM manufacturing index not offering much spark to markets. The overall index showed little change in October, and at 60.8 indicated an ongoing healthy rate of expansion in the manufacturing sector, although a weak point was a 7pt fall in new orders to 59.8. Other notable components showed a small rise in prices paid and employment. The commentary of the release said that companies and suppliers continue to deal with an unprecedented number of hurdles to meet increasing demand. All segments of the manufacturing economy are impacted by record-long raw materials lead times, continued shortages of critical materials, rising commodities prices and difficulties in transporting products.

After global equities surged to fresh highs in October, November has begun on a positive note, with the Euro Stoxx 600 index up 0.7% to another record high. The Dow Jones index passed 36,000 for the first time, while the small caps Russell 2000 index is up about 2½% overnight, albeit still a little lower from its high set in March. After a positive open, the S&P500 is currently trading flat. The strong earnings backdrop has supported the market over recent weeks, with about 82% of S&P500 companies beating analyst' earnings forecasts.

Against a backdrop of positive risk sentiment, global bond yields have pushed higher. US Treasuries are 2-3bps higher across the curve, with the 10-year rate up to 1.58%. The

market still seems unfazed by the prospect of the US Fed announcing a tapering of its asset purchase programme beginning soon and ending by mid-2022.

Germany's 10-year rate is barely higher at minus 0.11%, but the significant upward pressure on Italian bond yields seen through October has continued into November, with the Italy-Germany 10-year yield spread up to its highest level in over a year, to over 130bps. This reflects market nerves ahead of the likely end of the ECB's pandemic emergency bond buying programme in March, which has favoured peripheral bond markets.

The Australian rates market was a lot calmer than we saw last week and this helped domestic rates push lower yesterday, with yields down 3-4bps across the swaps and NZGB curves. We see this as a partial reversal of some added risk premia that has been built into the market.

News coming out of China remains negative. Following the release of weaker than expected official PMI data over the weekend, the casualty list from the government's property market crackdown continues, with a top-20 Chinese property developer Yango Group, looking to rollover USD747m of debt due to the liquidity crunch in the sector. While Evergrande has managed to avoid default for now, a couple of other smaller players have defaulted in the past month. Meanwhile the government's zero-COVID strategy continues to cause more lockdowns and disruptions and will remain a key source of weaker domestic demand for the indefinite future.

In currency markets, movements have been modest to start the week. The NZD was weaker out of the blocks, likely a response to the weaker China PMI data, but it has pushed higher as positive risk sentiment has taken over. Some resistance has been met just under the 0.72 mark and it currently trades 0.2% higher from last week's close near 0.7190. Commodity currencies have been on the positive side of the ledger, although the AUD is barely higher at 0.7525. Of the other majors, EUR has recovered some of Friday's loss to be up 0.3% to just under 1.16, seeing NZD/EUR nudge down to 0.6200. GBP and JPY have fallen slightly against the USD, so NZD crosses against these show modest gains.

In the day ahead, this morning RBNZ Governor Orr speaks on "Housing Matters, which will focus on the unsustainable level of house prices, a day ahead of the Financial Stability Report.

The RBA's policy update will be more interesting than usual, as the central bank looks to abandon its ill-fated forward guidance that rate hikes are unlikely until 2024. The guidance smacked of over-confidence in the Bank's ability to forecast the future, making it an absurd proposition as soon as the ink was dry, and more so after the recent surge in global and domestic inflationary pressure. Removal of this forward guidance makes its yield curve control policy of keeping the Apr-24 bond near 0.1% redundant. Signalling an end to QE might be a step too far in its eyes, even though continuing with this programme looks unnecessary. On rates guidance from here, the Bank would be wise to make future hikes conditional on how

inflationary pressures evolve from here, rather than signal any time-dependency.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ	RBNZ's Orr speaks on "Housing Matters"			09:30
NZ	Building permits (m/m%)	Sep	3.8	10:45
AU	RBA cash rate target (%)	Nov	0.1	16:30

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	0.7186	+0.2	0.7163	0.7198	CHF	0.9107	-0.6	S&P 500	4,602	-0.1	40.7	Oil (Brent)	84.47	+0.9
AUD	0.7521	+0.0	0.7486	0.7536	SEK	8.529	-0.7	Dow	35,865	+0.1	35.3	Oil (WTI)	83.72	+0.2
EUR	1.1594	+0.3	1.1547	1.1595	NOK	8.414	-0.4	Nasdaq	15,531	+0.2	42.3	Gold	1795.1	+0.6
GBP	1.3658	-0.2	1.3642	1.3693	HKD	7.783	+0.1	Stoxx 50	4,280	+0.7	44.7	HRC steel	1798.0	-0.3
JPY	114.09	+0.1	114.08	114.44	CNY	6.398	-0.1	FTSE	7,289	+0.7	30.7	CRB	237.7	-0.3
CAD	1.2365	-0.2			SGD	1.348	-0.0	DAX	15,806	+0.7	36.8	Wheat Chic.	803.3	+2.3
NZD/AUD	0.9555	+0.2			IDR	14,275	+0.8	CAC 40	6,893	+1.2	50.0	Sugar	19.37	+0.5
NZD/EUR	0.6198	-0.0			THB	33.29	+0.0	Nikkei	29,647	+2.6	27.3	Cotton	119.85	+4.4
NZD/GBP	0.5261	+0.4			KRW	1,176	+0.7	Shanghai	3,544	-0.1	9.9	Coffee	208.7	+2.2
NZD/JPY	81.99	+0.3			TWD	27.86	+0.2	ASX 200	7,371	+0.6	23.9	WM powder	3925.0	+0.0
NZD/CAD	0.8885	+0.1			PHP	50.54	+0.2	NZX 50	13,030	-0.5	7.9	Australian Futures		
NZ TWI	76.20	+0.2										3 year bond	98.81	0.14
												10 year bond	98.07	0.00
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	0.13	0.71	1.59	USD	1.57	0.02	NZGB 5 1/2 04/15/23	1.54	-0.01	1 year	1.55	-0.03	
AUD	0.10	0.06	0.97	2.13	AUD	1.91	-0.18	NZGB 0 1/2 05/15/26	2.27	-0.04	2 year	2.22	-0.04	
NZD	0.50	0.81	2.22	2.71	NZD	2.59	-0.04	NZGB 0 1/4 05/15/28	2.42	-0.04	5 year	2.60	-0.04	
EUR	0.00	0.06	-0.26	0.28	GER	-0.10	0.00	NZGB 1 1/2 05/15/31	2.54	-0.04	7 year	2.65	-0.04	
GBP	0.10	0.23	1.24	1.26	GBP	1.06	0.03	NZGB 2 05/15/32	2.59	-0.04	10 year	2.71	-0.04	
JPY	-0.05	-0.08	0.02	0.13	JPY	0.10	-0.00	NZGB 1 3/4 05/15/41	2.86	-0.04	15 year	2.82	-0.04	
CAD	0.25	0.48	1.54	2.20	CAD	1.74	0.02	NZGB 2 3/4 05/15/51	2.95	-0.04				

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

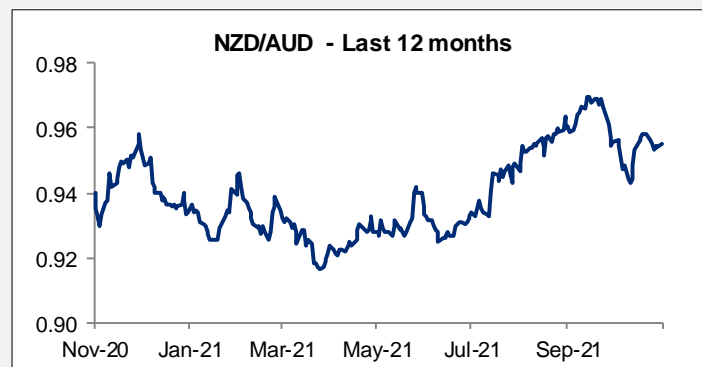
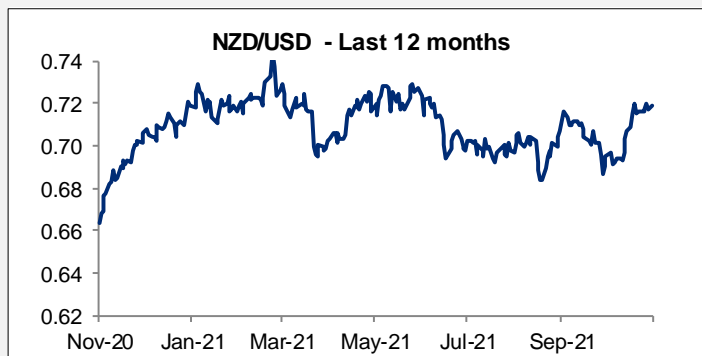
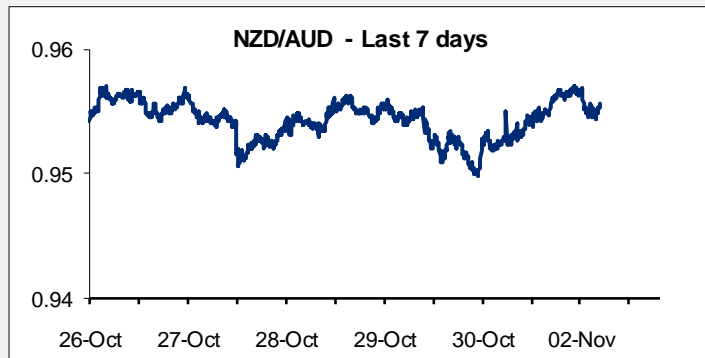
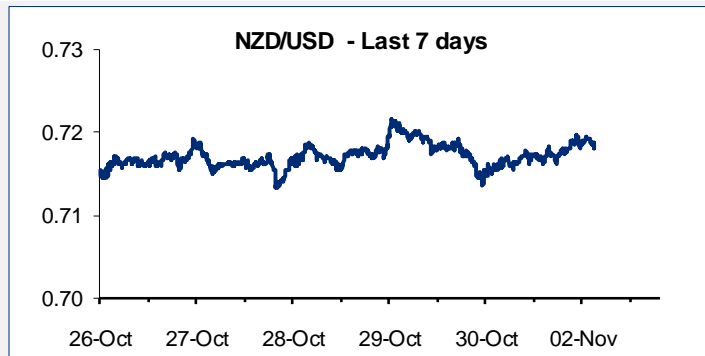
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:58

Source: Bloomberg

NZD exchange rates

2/11/2021 6:58 am		Prev. NY close
USD	0.7186	0.7171
GBP	0.5261	0.5241
AUD	0.9555	0.9538
EUR	0.6198	0.6204
JPY	81.99	81.71
CAD	0.8885	0.8883
CHF	0.6544	0.6569
DKK	4.6105	4.6158
FJD	1.4841	1.4786
HKD	5.5929	5.5783
INR	53.80	53.69
NOK	6.0465	6.0550
PKR	123.00	124.24
PHP	36.23	36.37
PGK	2.5214	2.5161
SEK	6.1293	6.1615
SGD	0.9689	0.9672
CNY	4.5974	4.5935
THB	24.04	23.79
TOP	1.5965	1.5862
VUV	78.44	78.31
WST	1.8239	1.8142
XPF	73.86	73.76
ZAR	11.0894	10.9295



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.81	-2.51
3 Months	-11.03	-10.53
6 Months	-28.51	-27.43
9 Months	-54.57	-52.81
1 Year	-85.60	-83.60

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.14	-4.44
3 Months	-18.11	-16.82
6 Months	-39.17	-36.39
9 Months	-67.40	-62.75
1 Year	-95.24	-90.10

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

National Australia Bank

Ivan Colhoun
Global Head of Research
+61 2 9237 1836

Alan Oster
Group Chief Economist
+61 3 8634 2927

Ray Attrill
Head of FX Strategy
+61 2 9237 1848

Skye Masters
Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Sydney

Foreign Exchange +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

Hong Kong

Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

London

Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761

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