

3 November 2021



## Events Round-Up

NZ: Building permits (m/m%), Sep: -1.9 vs. 3.8 prev.

AU: RBA cash rate target (%), Nov: 0.1 vs. 0.1 exp.

NZ: GDT auction price index (%): 4.3 vs. 2.2 prev.

## Good Morning

Newsflow overnight has been light, but yesterday's RBA announcement and update by Governor Lowe triggered a fall in the AUD, and the NZD has fallen just as much, both currencies down about 1.2% from this time yesterday, seeing the NZD test 0.71. US equities continue to print record highs, while the bias for global rates has been to the downside, ahead of the important Fed update in 24 hours.

RBA policy has been a key source of some serious Australian interest rate volatility over the past week or so, and that has continued and spilled over into the AUD. The lead-up to this mess was set some time ago when the RBA issued forward rate guidance that hikes were off the table for at least three years, and it was willing to back that up by targeting, via bond purchases whenever necessary, a three-year bond yield of 0.1%. Not unexpectedly, this misguided policy has been blown up by the RBA's getting its forecasts wrong, with inflation rising by much sooner than it expected. The yield curve control policy wasn't defended last week after core inflation surged back into the Bank's 2-3 target range and the policy was officially abandoned yesterday.

Still, the RBA reckons that Australia is "different" and with only a mild further increase in inflation projected the Bank continues to believe there's a chance that a rate hike might not need be delivered until 2024. However, the Bank now concedes that "it is now plausible that a lift in the cash rate could be appropriate in 2023". Ending QE was a step too far, and this will continue at the rate of \$4b per week "until at least mid-February". Governor Lowe pushed back on market expectations of hikes from next year, saying that it was "extremely unlikely". (Note to self, bookmark this comment and wheel it out next year).

The market won't easily budge from its view of potential rate hikes from next year, given the global backdrop of rising inflation pressure everywhere, but the overtly dovish commentary by the RBA was a good excuse for traders to pull their horns in a little. Since the policy announcement, the 3-year bond future has fallen in yield by about 18bps,

while the 10-year bond future is down 16bps in yield terms. Given the RBA's inflation projections still look too low, the prospect of a rate hike coming much earlier than the RBA currently believes is very high.

Lower Australian rates drove a weaker AUD, now down 1.2% from this time yesterday to 0.7425, with the NZD falling in sympathy, down 1.2% to 0.7100 and hitting a low of 0.7093 overnight. Adding to the downside pressure, safe-haven currencies have outperformed, with broad USD and JPY strength. Still, the weakness in AUD and NZD have stood out like a sore thumb, with CAD and GBP down 0.3-0.4% and EUR barely lower over the past 24 hours. So the NZD shows some reasonable falls on the crosses, except NZD/AUD which is relatively flat at 0.9560.

The overnight GDT dairy auction showed a strong 4.3% gain in the price index, including whole milk powder up 2.7%, skim milk powder up 6.6%, butter up 4.7% and cheddar up a massive 14.1%. The price index has risen over 12% in the past two months and nearly 40% over the past year. The strong auction puts further upward pressure on Fonterra's milk price payout for FY22 in what is shaping up to be a record season. As usual, the NZD ignored this data point.

The daily newsflow out of China certainly isn't getting any better, with the Ministry of Commerce putting out a press release urging local authorities to ensure there was adequate food supply during winter and encouraging people to stock up on some essentials. This lit up social media platforms, leading the MoC to then try to calm concerns. State media linked the message to possible quarantine at home during the current COVID19 outbreak, to hose down speculation that it reflected rising tensions with Taiwan.

The risk-off tone in currency markets doesn't gel with the fact that US equities continue their record-breaking run, with the S&P500 currently up 0.4%.

Ahead of the US Fed update tomorrow morning, there has been some positioning adjustments, with the Treasuries curve lower and flatter, the 2-year rate down 4bps to 0.46% and the 10-year rate down 1bp to 1.54%. Bloomberg commentary is putting the downward pressure on short rates as being influenced by the RBA digging in with its dovish stance, and the market rethinking how hawkish the Fed and BoE might be this week.

The RBA's update came after the NZ close, so was no influence on the domestic rates market. Still, a flattening bias was evident, with short dated swap and bonds seeing some upside yield pressure, while the long end was flat to slightly down in yield. The pressure on the curve will be to the downside at the open.

RBNZ Governor Orr's speech on "Housing Matters" didn't rattle the market and didn't offer anything new in the way of policy response. Orr suggested that the role of the RBNZ was a "bit part" and "with regard to using interest rates to target house prices, this is not in our mandate - nor does it make sense". The Bank's role is "more about limiting damage to bank's balance sheets, rather than altering overall demand". In terms of increasing its macro prudential policy toolbox, Orr confirmed that the Bank was well advanced in work to commence consulting on additional "debt servicing ratio" tools.

The event calendar over the next 24 hours is action packed, with the RBNZ's Financial Stability Report this morning, followed by NZ labour market data. The latter will be distorted by the impact of the lockdown restrictions that began in August and are still in place in Auckland, reducing their worthiness as indicators for Q3. But for the record, the data should still show very tight labour market conditions and high wage inflation.

Key US economic data tonight include the ADP private payrolls report and ISM service index, both expected to remain robust. The Fed's latest policy update comes at an

annoying time of 7am, which will delay publication of tomorrow's Markets Today so that we can capture the new information and initial market reaction. The Fed is widely expected to announce a tapering of its asset purchase programme, set at around \$15b per month from mid-month, and thereby ending mid-June 2022. Chair Powell's Q&A post-meeting will be more interesting if it battles questions about his view on the market pricing rate hikes from as soon as QE ends mid next year.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	RBNZ Financial Stability Report				09:00
NZ	QES avg hrly earnings (q/q%)	Q3	1.5	0.7	10:45
NZ	LCI pvt wages x overtime (q/q%)	Q3	0.7	0.9	10:45
NZ	Employment (q/q%)	Q3	0.4	1.0	10:45
NZ	Unemployment rate (%)	Q3	3.9	4.0	10:45
AU	Building approvals (m/m%)	Sep	-2.0	6.8	13:30
CH	Caixin PMI services	Oct	53.1	53.4	14:45
EC	Unemployment rate (%)	Sep	7.4	7.5	23:00
US	ADP employment change (k)	Oct	400	568	01:15
US	ISM services index	Oct	62.0	61.9	03:00
US	FOMC Rate (upper bd %)	Nov	0.25	0.25	07:00
US	Powell press conference post FOMC meeting				07:30

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	0.7103	-1.1	0.7093	0.7179	CHF	0.9141	+0.6	S&P 500	4,629	+0.3	39.8	Oil (Brent)	84.57	-0.2
AUD	0.7425	-1.3	0.7420	0.7490	SEK	8.573	+0.6	Dow	36,054	+0.4	33.9	Oil (WTI)	83.58	-0.6
EUR	1.1582	-0.2	1.1575	1.1613	NOK	8.523	+1.4	Nasdaq	15,617	+0.1	42.5	Gold	1788.7	-0.4
GBP	1.3617	-0.3	1.3606	1.3668	HKD	7.782	-0.0	Stoxx 50	4,296	+0.4	42.3	HRC steel	1785.0	-0.7
JPY	113.87	-0.1	113.46	113.94	CNY	6.400	+0.0	FTSE	7,275	-0.2	28.6	CRB	239.2	+0.6
CAD	1.2401	+0.3			SGD	1.349	+0.1	DAX	15,954	+0.9	35.3	Wheat Chic.	804.5	-0.6
NZD/AUD	0.9566	+0.1			IDR	14,251	-0.2	CAC 40	6,927	-0.3	47.7	Sugar	19.54	+0.7
NZD/EUR	0.6133	-1.0			THB	33.27	-0.1	Nikkei	29,521	-0.4	26.7	Cotton	117.35	-2.0
NZD/GBP	0.5216	-0.8			KRW	1,175	-0.2	Shanghai	3,506	-1.1	7.2	Coffee	208.1	-0.3
NZD/JPY	80.88	-1.3			TWD	27.85	-0.0	ASX 200	7,324	-0.6	20.7	WM powder	3965.0	+1.0
NZD/CAD	0.8808	-0.9			PHP	50.39	-0.3	NZX 50	12,993	-0.3	7.1	<b>Australian Futures</b>		
NZ TWI	75.53	-0.9										3 year bond	98.95	0.14
												10 year bond	98.17	0.12
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates				Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	0.25	0.14	0.66	1.57	USD	1.54	-0.02	NZGB 5 1/2 04/15/23	1.56	0.02	1 year	1.58	0.03	
AUD	0.10	0.06	0.85	2.00	AUD	1.89	-0.02	NZGB 0 1/2 05/15/26	2.29	0.02	2 year	2.26	0.04	
NZD	0.50	0.80	2.18	2.58	NZD	2.59	0.00	NZGB 0 1/4 05/15/28	2.43	0.02	5 year	2.61	0.01	
EUR	0.00	0.06	-0.32	0.21	GER	-0.17	-0.06	NZGB 1 1/2 05/15/31	2.54	0.00	7 year	2.65	0.00	
GBP	0.10	0.24	1.17	1.24	GBP	1.04	-0.02	NZGB 2 05/15/32	2.59	0.00	10 year	2.71	0.00	
JPY	-0.05	-0.08	0.02	0.12	JPY	0.08	-0.02	NZGB 1 3/4 05/15/41	2.85	-0.01	15 year	2.82	0.00	
CAD	0.25	0.48	1.52	2.17	CAD	1.72	-0.03	NZGB 2 3/4 05/15/51	2.94	-0.01				

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

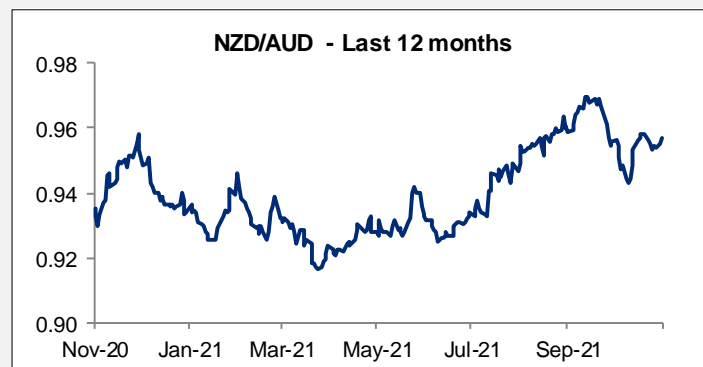
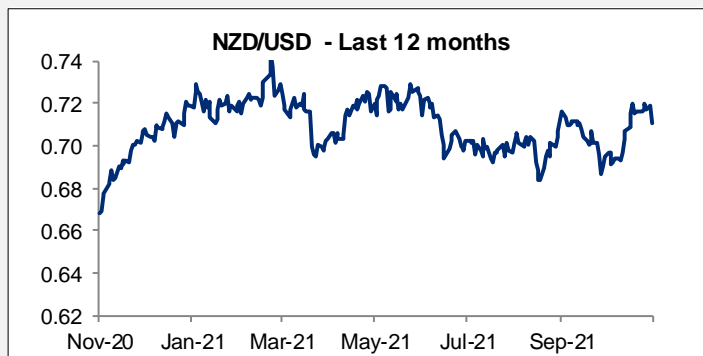
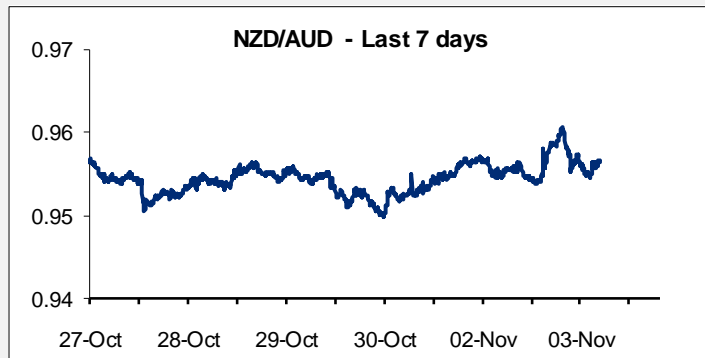
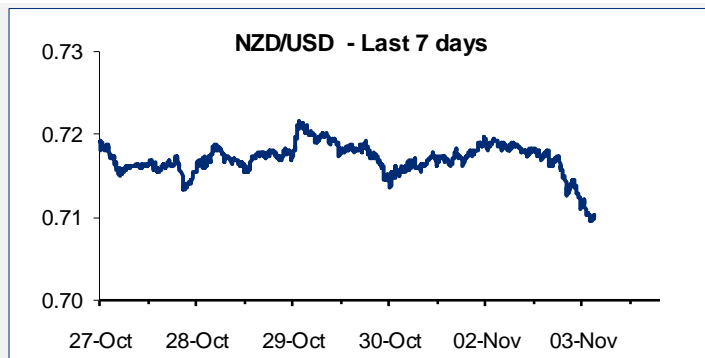
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

**NZD exchange rates**

3/11/2021	6:57 am	Prev. NY close
USD	0.7103	0.7185
GBP	0.5216	0.5258
AUD	0.9566	0.9547
EUR	0.6133	0.6191
JPY	80.88	81.91
CAD	0.8808	0.8887
CHF	0.6493	0.6532
DKK	4.5626	4.6050
FJD	1.4657	1.4830
HKD	5.5275	5.5920
INR	53.05	53.80
NOK	6.0536	6.0399
PKR	122.16	124.48
PHP	35.79	36.23
PGK	2.4923	2.5211
SEK	6.0892	6.1213
SGD	0.9585	0.9689
CNY	4.5459	4.5967
THB	23.62	24.04
TOP	1.5749	1.5963
VUV	77.90	78.40
WST	1.8106	1.8239
XPF	72.92	73.85
ZAR	10.9542	11.0861



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.88	-2.52
3 Months	-10.82	-10.18
6 Months	-28.12	-27.11
9 Months	-53.70	-52.10
1 Year	-84.10	-82.09

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.36	-4.63
3 Months	-19.02	-17.66
6 Months	-41.74	-39.34
9 Months	-71.72	-67.70
1 Year	-103.82	-98.84

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