

4 November 2021



Events Round-Up

NZ: QES avg hrly earnings (q/q%), Q3: 1.2 vs. 1.5 exp.
 NZ: LCI pvt wages x overtime (q/q%), Q3: 0.7 vs. 0.8 exp.
 NZ: Employment (q/q%), Q3: 2.0 vs. 0.4 exp.
 NZ: Unemployment rate (%), Q3: 3.4 vs. 3.9 exp.
 AU: Building approvals (m/m%), Sep: -4.3 vs. -2.0 exp.
 CH: Caixin PMI services, Oct: 53.8 vs. 53.1 exp.
 EC: Unemployment rate (%), Sep: 7.4 vs. 7.4 exp.
 US: ADP employment change (k), Oct: 571 vs. 400 exp.
 US: ISM services index, Oct: 66.7 vs. 62.0 exp.
 US: FOMC Rate (upper bd %), Nov: 0.25 vs. 0.25 exp.

Good Morning

Market movements have been well-contained ahead of the FOMC meeting this morning and in the initial aftermath of the statement, which didn't surprise. We await Fed Chair Powell's press conference, where he will likely be probed on the timing of the first rate hike, and there will be interest in how much he pushes back on market pricing for hikes from the second half of next year.

The US FOMC has just released its policy update and, as widely expected, the Fed is looking to taper its asset purchases by \$10b a month for Treasuries and \$5b a month for mortgage-backed securities from later this month. At this pace, the asset purchase programme will come to an end in June 2022, but the Fed said that it was prepared to adjust the pace of purchases if warranted by changes in the economic outlook.

On that note a key change to the FOMC statement was a rephrasing of the inflation picture, now saying that elevated inflation reflects factors that are "expected to be" transitory. The previous statement was more definite that elevated inflation was transitory. This was a signal of less confidence in the inflation outlook, conceding that high inflation might be prolonged. Based on the current taper plan, the earliest rate hike could come is July next year.

Ahead of Powell's press conference, US equities are flat for the day, while US Treasury yields have ticked higher, having been up 2bps for day ahead of the FOMC statement, they are currently up 3-4bps. The USD is flat for the day, and the NZD and GBP have made modest gains for the day. The NZD trades this morning at 0.7130, notably

outperforming the AUD, sending the cross to the 0.96. All these figures could change after Powell speaks, so we'll leave it at that.

US data overnight were stronger than expected. The ISM services index unexpectedly surged to a fresh record high of 66.7, with business activity and new orders up to record highs. Order backlogs, supplier delivery times and prices paid remained a feature of the survey, reaching new highs. ADP private payrolls rose by 571k in October, which might lead to some upward revisions to non-farm payrolls estimates for Friday, with the consensus currently at 450k.

ECB President Lagarde was more direct in comments on the rates outlook after last week only half-heartedly pushing back on market expectations for a rate hike next year. Overnight she said that a hike in 2022 was "very unlikely", with a subdued outlook for inflation over the medium term.

The Central Bank of Poland shocked the market again, delivering a 75bps hike in its policy rate to 1.25%, the largest hike in its history and Governor Glapinski saying "we will do whatever it takes to bring inflation back to target in the medium term". This continues the theme of some central banks – mainly the smaller developed ones and in emerging markets – getting a move-on to reduce unnecessary policy stimulus.

The US Treasury announced the first reduction in quarterly auctions of longer-term debt in more than five years, reflecting reduced borrowing needs as pandemic-related stimulus diminishes. This comes at an opportune time, as the Fed tapers its bond purchases, reducing the impact of this policy action on the market. Treasury will auction \$120b of long-term securities next week, a reduction of \$6b from the recent record levels.

The spread of COVID19 across China is worsening, with more than 600 community cases now tallied in over half of the 31 Provinces in the latest outbreak. We see the government's elimination strategy as significantly reducing domestic demand as lockdowns become more widespread and this a key risk factor to watch for the global economy.

Oil prices are down about 3%, ahead of the OPEC+ meeting. The EIA reported higher US crude production, leading to higher US inventories. Still, there is some pressure (including from the White House) on OPEC producers to lift production faster than so-far outlined.

Brent crude sits this morning at USD82.40 per barrel, down from a high of USD86.70 last week.

NZ labour market data showed surprising strength in employment in Q3, driving a plunge in the unemployment rate to a 14-year low of 3.4%. Wage data didn't positively surprise, but a couple of key series showed annual wage inflation running at over 4%. The strength of the labour market and high wage inflation are consistent with the over-heating, over-stimulated economy thematic in play all year. This will require the RBNZ to deliver a long series of rate hikes to get the OCR back to at least a neutral level to validate the recent market-led tightening in financial conditions – which is already behind a meaty increase in borrowing rates facing households and businesses. Market reaction to the strong data in net terms was fairly minimal, following a knee-jerk lift in the NZD and short rates.

The domestic rates market had a whippy session, falling on the open on the previous night's offshore moves, surging on the labour market data, before cool heads brought rates back down. RBNZ Governor Orr spoke at FEC after the release of the Bank's Financial Stability Report (which didn't add much new from his housing market speech the day before) and noted that labour market data are highly volatile at present. This was code for not reading too much into the data, particularly with the survey period capturing a period of significant lockdown restrictions.

The datasheet shows a flat 2-year swap rate on the day, but that encompassed a 12bps range of 2.21-2.33%. The long end of the curve was also whippy, but with the net change being a 7bps fall in the 10-year swap rate. The NZGB curve showed a flattening bias as well, albeit with only a 2bps fall in the 10-year rate to 2.52%.

The key focus in the day ahead will be the Bank of England's policy update. Economists are evenly split on the Bank Rate, with 23 out of 45 surveyed by Bloomberg picking no change while 22 pick a 15bps lift to 0.25%, kicking off a rate hike cycle. We think the MPC will be split, but the odds favour a rate hike and the market is well priced for this.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Trade balance (\$b)	Sep	12.4	15.1	13:30
GE	Factory orders (m/m%)	Sep	1.8	-7.7	20:00
UK	Markit construction PMI	Oct	52.0	52.6	22:30
UK	Bank of England Bank Rate (%)	Nov	0.1	0.1	01:00
UK	BOE gilt purchase target (£b)	Nov	875	875	01:00
US	Initial jobless claims (k)	30-Oct	275	281	01:30
US	Trade balance (\$b)	Sep	-80.2	-73.3	01:30

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	0.7134	+0.3	0.7120	0.7155	CHF	0.9126	-0.2		S&P 500	4,637	+0.1	37.6	Oil (Brent)	82.32	-2.8
AUD	0.7429	+0.0	0.7414	0.7451	SEK	8.565	-0.1		Dow	36,020	-0.1	31.1	Oil (WTI)	81.18	-3.2
EUR	1.1584	+0.1	1.1562	1.1609	NOK	8.534	+0.1		Nasdaq	15,700	+0.3	40.7	Gold	1764.4	-1.4
GBP	1.3660	+0.4	1.3608	1.3685	HKD	7.785	+0.0		Stoxx 50	4,310	+0.3	39.1	HRC steel	1785.0	+0.3
JPY	114.10	+0.1	113.72	114.17	CNY	6.407	+0.1		FTSE	7,249	-0.4	25.3	CRB	239.2	-0.0
CAD	1.2412	+0.0			SGD	1.350	+0.1		DAX	15,960	+0.0	32.0	Wheat Chic.	792.8	-1.3
NZD/AUD	0.9603	+0.3			IDR	14,313	+0.4		CAC 40	6,951	-0.1	44.6	Sugar	19.38	-0.7
NZD/EUR	0.6158	+0.3			THB	33.43	+0.5		Nikkei	29,521	-0.4	26.7	Cotton	118.93	+1.4
NZD/GBP	0.5223	-0.0			KRW	1,182	+0.6		Shanghai	3,499	-0.2	6.7	Coffee	209.3	+0.8
NZD/JPY	81.40	+0.4			TWD	27.86	+0.0		ASX 200	7,393	+0.9	21.9	WM powder	4000.0	+0.9
NZD/CAD	0.8855	+0.3			PHP	50.58	+0.4		NZX 50	12,994	+0.0	6.5	Australian Futures		
NZ TWI	75.87	+0.4											3 year bond	98.87	-0.08
													10 year bond	98.14	-0.04

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	
USD	0.25	0.15	0.69	1.61	USD	1.59	0.04	1 year	1.59	0.00
AUD	0.10	0.05	0.86	2.03	AUD	1.85	-0.04	2 year	2.26	0.00
NZD	0.50	0.80	2.26	2.64	NZD	2.56	-0.02	5 year	2.57	-0.04
EUR	0.00	0.06	-0.30	0.22	GER	-0.17	-0.00	7 year	2.60	-0.05
GBP	0.10	0.23	1.20	1.28	GBP	1.08	0.04	10 year	2.64	-0.07
JPY	-0.05	-0.08	0.02	0.12	JPY	0.08	0.00	15 year	2.74	-0.08
CAD	0.25	0.48	1.55	2.19	CAD	1.75	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 07:22

Source: Bloomberg

NZD exchange rates

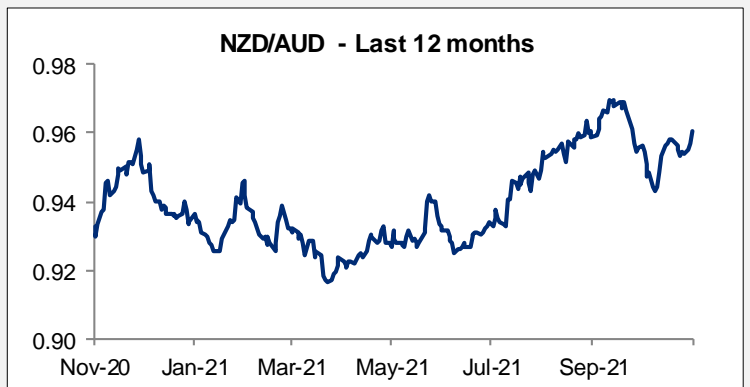
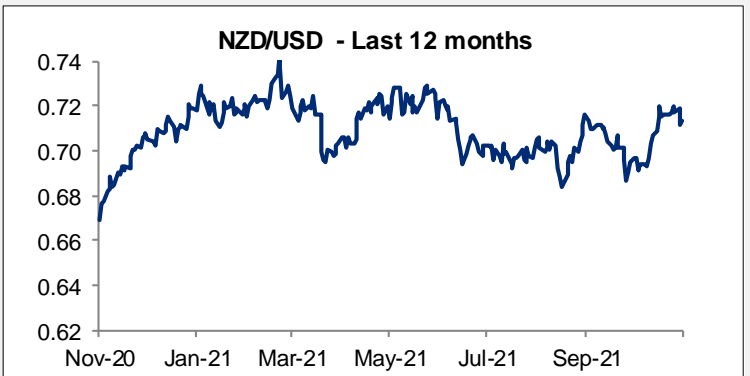
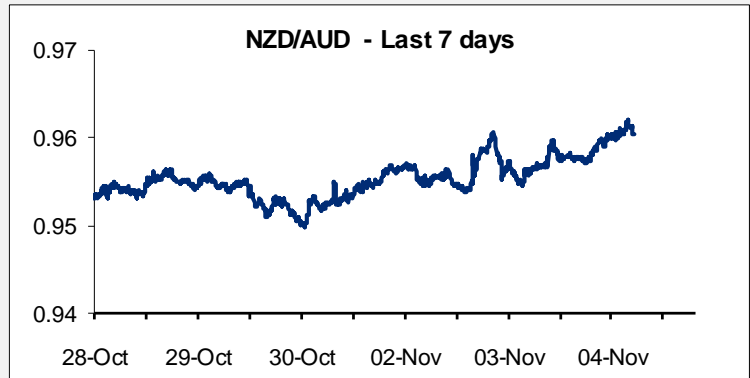
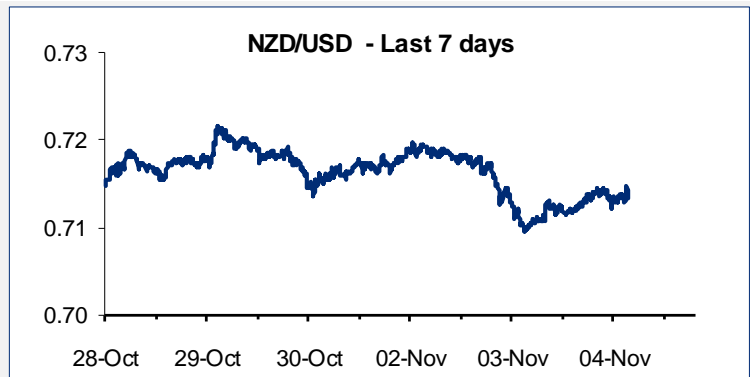
4/11/2021 7:23 am		Prev. NY close
USD	0.7134	0.7111
GBP	0.5223	0.5224
AUD	0.9603	0.9572
EUR	0.6158	0.6141
JPY	81.40	81.04
CAD	0.8855	0.8825
CHF	0.6510	0.6504
DKK	4.5804	4.5687
FJD	1.4810	1.4716
HKD	5.5535	5.5338
INR	53.12	53.11
NOK	6.0879	6.0640
PKR	121.27	122.30
PHP	36.08	35.83
PGK	2.5032	2.4951
SEK	6.1101	6.0975
SGD	0.9630	0.9593
CNY	4.5705	4.5510
THB	23.77	23.64
TOP	1.5878	1.5767
VUV	78.73	77.89
WST	1.8090	1.8030
XPF	73.29	73.07
ZAR	11.0126	10.9816

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.77	-2.47
3 Months	-11.14	-10.63
6 Months	-28.78	-27.76
9 Months	-55.01	-53.00
1 Year	-86.79	-84.79

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.32	-4.48
3 Months	-20.25	-19.00
6 Months	-44.45	-41.49
9 Months	-76.33	-71.06
1 Year	-110.34	-105.09



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