

4 November 2022



Events Round-Up

CH: Caixin PMI Services, Oct: 48.4 vs. 49 exp.

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

UK: Bank of England Bank Rate (%), Oct: 3 vs. 3 exp.

US: Trade balance (\$b), Sep: -73.3 vs. -72.2 exp.

US: Initial jobless claims (k), 29-Oct: 217 vs. 220 exp.

US: ISM Services index, Oct: 54.4 vs. 55.3 exp.

Good Morning

Market moves overnight have been dominated by the fallout from the Fed meeting, at which Powell emphasised a higher-for-longer interest rate outlook. US rates have pushed higher, the USD has appreciated sharply, while equities have extended their post-Fed sell-off. The GBP is down almost 2% overnight amidst a stronger USD and after a dovish Bank of England meeting, at which Governor Bailey pushed back against market expectations for significant further rate hikes. The NZD is back below 0.58. The all-important nonfarm payrolls report takes place tonight, with markets expecting a slowdown in job growth in October to 200k.

The market continues to digest the Fed meeting yesterday which, despite signals the Fed is likely to shift down to a 50bps hike in December, was widely regarded as more hawkish than expected. Powell's message from the press conference was that the Fed thinks it will likely need to take the cash rate to a higher level than previously set out in the 'dot plot' (4.50%-4.75%) and it was prepared to "stay the course until the job is done." The hawkish messaging disappointed investors hoping for a so-called 'dovish pivot'. The US 10-year rate finished yesterday's session at 4.10% and it has continued its upward march overnight, pushing above 4.20% at one point, but now back to 4.13%. The US Treasury curve has 'bear flattened', with the 2-year rate 7bps higher overnight, as market pricing for the terminal Fed funds rate has pushed up to around 5.15%.

In economic data, the ISM Services index was weaker than expected, with the index falling to 54.4, its lowest level since mid-2020. While the overall level of the index remains comfortably in expansionary territory, the trend is clearly down, with services sector activity continuing to moderate from the very strong levels of last year. In terms of the components, the key New Orders index slowed to

56.5 while the Employment index fell back below the 50 level, although this has had an inconsistent relationship with payrolls over the past two years. Less encouragingly, for the inflation outlook, there was a tick up in pricing intentions, to 70.7, still well above pre-Covid levels. Meanwhile, jobless claims remained at very low levels last week, just 217k, consistent with a still very-tight labour market.

Equity markets were hit hard by the Fed's hawkish messaging, the S&P500 closing down 2.5% and the NASDAQ off more than 3% yesterday. Those falls have extended overnight, albeit with some recovery from the intraday lows after the weaker-than-expected ISM index, consistent with the prevailing 'bad news is good news' trading narrative (weaker economic data is seen as likely to reduce the need for the Fed to tighten as aggressively, in turn seen as supportive of equities). The S&P500 is currently down around 0.8%, having been more than 1.6% lower at one point, while the NASDAQ is 1.3% lower.

USD strength is the key theme in the FX market against a backdrop of higher Fed rate expectations and cautious risk appetite. The BBDXY index is up 0.7%, taking it back to within 1.5% of its recent all-time (post-2004) highs. The NZD and AUD are both down around 1% since 5pm yesterday, the NZD falling back to around 0.5780 and the AUD dipping back below 0.63. In the immediate aftermath of the Fed statement, which foreshadowed a step down to a 50bps hike in December, but before Powell's hawkish messaging in the press conference, the NZD had traded up to around 0.5940, its highest level in six weeks.

In contrast to the Fed, the Bank of England signalled a dovish message at its meeting overnight. The BoE raised its cash rate by 75bps, to 3%, as expected, in a 7-2 vote (Dhingra voting for 50bps and Tenreyro for 25bps). The BoE's economic forecasts, conditioned on market expectations the cash rate would reach 5.25%, showed a chunky 3% contraction in GDP and CPI inflation heading to 0% in three years' time (from a forecast peak of 10.9%). Under an alternative scenario where the cash rate remained unchanged at its current levels of 3% from here, inflation was still forecast to be below 1% in three years' time. If the implicit message from its market-based economic forecasts wasn't clear enough, Governor Bailey told the press conference "we think bank rate will have to go up less than what's currently priced into financial markets", albeit recognising that the risks to inflation were to the upside. The BoE wasn't able to factor in the fiscal

austerity measures likely to be announced later this month by new Chancellor Hunt which will further dent GDP growth.

The dovish messaging from the BoE can be most clearly seen in the GBP, which is down 1.9% since yesterday morning, the biggest mover among G10 currencies. The interest rate reaction has been more restrained, no doubt influenced by the ripple effect from the Fed meeting and with investors perhaps wary of reading too much into the BoE's economic forecasts, given its dismal recent track record of forecasting inflation. The market is pricing around a 50% chance of another 75bps BoE hike next month and a peak in the cash rate of around 4.75% next year, similar to the levels prevailing before the meeting. The UK 10-year rate was 11bps higher overnight, at 3.50%, matching the move in the German 10-year rate.

Meanwhile, in Europe, ECB President Lagarde said she didn't think a shallow recession "will be able to tame inflation", suggesting that this wouldn't prevent further rate hikes. While Lagarde said her "baseline" scenario was that Europe avoids recession, her colleague Kazaks (and most market participants) think a recession is likely in the coming months. The EUR is down 0.7% since yesterday morning, to around 0.9750.

The aftermath of the post-Fed US bond sell-off rippled through to the NZ market yesterday, driving swap rates up 6-8bps. Volatility remains extremely high. The 2-year swap rate fell 33bps last week (on hopes major central bank had moved past the point of 'peak hawkishness') and it has increased 22bps this week (as markets come to terms with a still-hawkish Fed and resilient US economic data). New Zealand government bonds found some support yesterday, with strong demand for 5-to-10-year bonds seen at the bond tender. NZGB yields have had a rollercoaster ride over the past week, outperforming significantly ahead of their inclusion into the WGBI bond index and then reversing a good portion of that outperformance after the index inclusion event passed. The 10-year bond yield was 10bps higher yesterday, at 4.54%.

Market attention now turns to the monthly US nonfarm payrolls report. The consensus is for further slowing in the pace of employment growth, albeit to what would still be a robust 200k net jobs gain, and a tick up in the unemployment rate, to 3.6%. The market expects another 0.3% monthly increase in average hourly earnings, which would take the annual rate down to 4.7% y/y. A number of high-profile corporates have recently announced hiring freezes or job losses ahead, with Reuters reporting overnight that Morgan Stanley was looking at cutting a "low-single digit percentage of global staff", the WSJ reporting Amazon was pausing corporate hiring for the next few months, and Elon Musk reportedly looking to cut half of Twitter's workforce. So far, the data on the labour market suggest still very strong demand for labour, but the corporate anecdotes suggest we should expect some softening ahead.

Elsewhere, ECB President Lagarde, BoE Chief Economist Pill and new Boston Fed President Collins are all speaking. The RBA releases its Statement of Monetary Policy (SoMP) this afternoon, although the most recent statement has already foreshadowed some of the forecast changes.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA-Statement on Monetary Policy				13:30
EC	ECB's Lagarde Speaks				22:30
UK	BOE's Huw Pill speaks				01:15
CA	Unemployment Rate	Oct	5.3	5.2	01:30
CA	Hourly Wage Rate (y/y%)	Oct	5.1	5.2	01:30
US	Change in Nonfarm Payrolls (k)	Oct	200	263	01:30
US	Unemployment Rate (%)	Oct	3.6	3.5	01:30
US	Average Hourly Earnings (m/m%)	Oct	0.3	0.3	01:30
US	Average Hourly Earnings (y/y%)	Oct	4.7	5	01:30
US	Fed's Collins Discusses the Economy and Policy				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	0.5779	-0.7	0.5741	0.5830	CHF	1.0128	+0.9		S&P 500	3,738	-0.6	-19.8	Oil (Brent)	95.02	-1.2
AUD	0.6295	-0.9	0.6272	0.6361	SEK	11.186	+0.7		Dow	32,083	-0.2	-11.3	Oil (WTI)	88.51	-1.7
EUR	0.9751	-0.7	0.9730	0.9826	NOK	10.569	+1.0		Nasdaq	10,407	-1.1	-34.2	Gold	1631.7	-1.1
GBP	1.1182	-1.8	1.1157	1.1409	HKD	7.850	+0.0		Stoxx 50	3,593	-0.8	-16.6	HRC steel	680.0	+0.6
JPY	148.26	+0.2	147.39	148.45	CNY	7.302	+0.2		FTSE	7,189	+0.6	-0.8	CRB	280.7	+1.6
CAD	1.3733	+0.2			SGD	1.422	+0.3		DAX	13,130	-1.0	-17.7	Wheat Chic.	861.5	-0.3
NZD/AUD	0.9180	+0.2			IDR	15,695	+0.3		CAC 40	6,243	-0.5	-10.2	Sugar	18.47	+0.1
NZD/EUR	0.5927	-0.0			THB	38.02	+0.6		Nikkei	27,663	-0.1	-6.3	Cotton	82.83	+4.9
NZD/GBP	0.5168	+1.2			KRW	1,424	+0.4		Shanghai	2,998	-0.2	-15.0	Coffee	168.8	-4.6
NZD/JPY	85.68	-0.4			TWD	32.25	+0.3		ASX 200	6,858	-1.8	-7.7	WM powder	3350	+2.1
NZD/CAD	0.7936	-0.5			PHP	58.83	+0.6		NZX 50	11,184	-0.9	-13.6	Australian Futures		
NZ TWI	69.94	-0.3											3 year bond	96.51	-0.01
													10 year bond	96.08	-0.03

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		Last			
USD	4.00	4.51	5.09	4.19	USD	4.13	0.03	NZGB 0 1/2 05/15/24	4.64	0.06	1 year	5.12	0.04
AUD	2.85	3.06	4.08	4.65	AUD	3.92	0.11	NZGB 4 1/2 04/15/27	4.58	0.08	2 year	5.20	0.06
NZD	3.50	4.17	5.20	4.79	NZD	4.53	0.10	NZGB 3 04/20/29	4.54	0.09	5 year	4.87	0.07
EUR	1.50	1.73	3.01	3.11	GER	2.25	0.10	NZGB 1 1/2 05/15/31	4.53	0.10	7 year	4.81	0.08
GBP	3.00	3.36	4.45	3.82	GBP	3.52	0.12	NZGB 2 05/15/32	4.53	0.10	10 year	4.79	0.07
JPY	-0.06	-0.03	0.15	0.63	JPY	0.25	0.00	NZGB 1 3/4 05/15/41	4.85	0.11	15 year	4.82	0.08
CAD	3.75	4.58	4.50	3.91	CAD	3.41	0.08	NZGB 2 3/4 05/15/51	4.80	0.12			

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

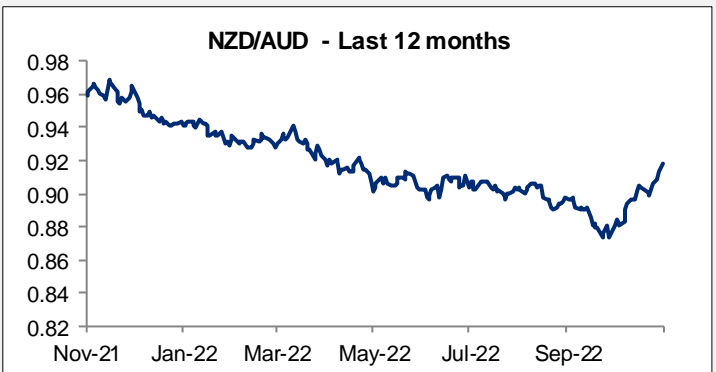
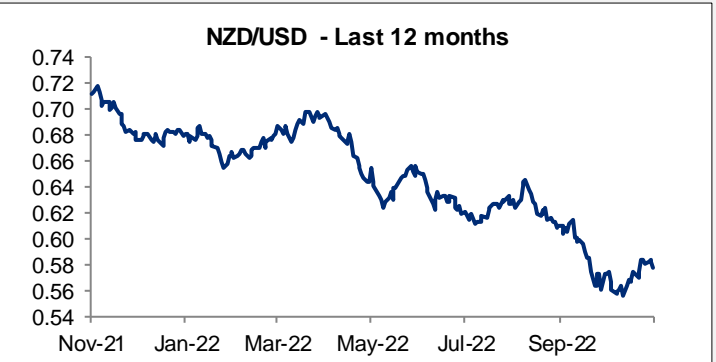
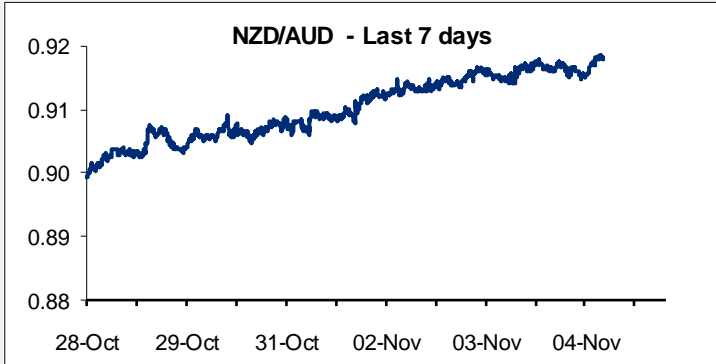
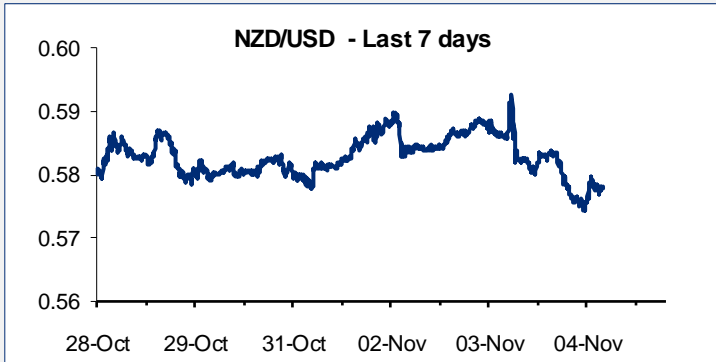
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:43

Source: Bloomberg

NZD exchange rates

4/11/2022	6:43 a.m.	Prev. NY close
USD	0.5779	0.582
GBP	0.5168	0.5109
AUD	0.9180	0.9164
EUR	0.5927	0.5928
JPY	85.68	86.08
CAD	0.7936	0.7980
CHF	0.5853	0.5839
DKK	4.4110	4.3855
FJD	1.3371	1.3488
HKD	4.5365	4.5685
INR	47.90	48.14
NOK	6.1080	6.0910
PKR	128.19	128.42
PHP	33.99	33.74
PGK	2.0356	2.0457
SEK	6.4644	6.4667
SGD	0.8217	0.8248
CNY	4.2195	4.2428
THB	21.97	21.87
TOP	1.3888	1.3844
VUV	70.90	71.21
WST	1.6184	1.6397
XPF	69.82	70.03
ZAR	10.6342	10.6252



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	2.33	2.72
3 Months	8.59	9.19
6 Months	13.87	15.37
9 Months	15.37	17.47
1 Year	16.15	19.15

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.21	-4.30
3 Months	-20.69	-19.02
6 Months	-44.21	-40.33
9 Months	-65.67	-59.81
1 Year	-83.88	-74.08

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