

5 October 2021



Events Round-Up

Nothing of note

Good Morning

US equities are down 1½-2½% but it looks more like a sector rotation than a big risk off move. US rates are slightly higher while the USD has given up some recent ground and shows a broadly based fall. This sees the NZD on a better footing, up modestly to 0.6965.

The biggest market mover overnight has been a smashing of technology stocks in the US, with the Nasdaq index currently down about 2½%, led by Big-tech, a sector that has been struggling recently against the backdrop of higher bond yields. Facebook, Twitter, Alphabet, Amazon and Apple are all much lower, in the order of 3-5%. These moves have been a drag on the S&P500 but there hasn't been indiscriminate selling, with the Energy and Utilities sectors higher and only modest falls for some of the cyclical sectors.

A Bloomberg columnist showed a parabolic rise in stories mentioning the word "stagflation", rising to over 4,000, from 2,000 a month ago and closer to 500 at the start of the year. But the overnight move in markets doesn't quite fit the stagflation theme, with the US 10-year rate up less than 2bps. It made a run to slightly above 1.50% before buyers stepped in to take it back down to 1.48%.

Surging energy prices remain on the radar. OPEC+ hasn't responded to the recent surge in oil prices and agreed to maintain its prior slow-paced lift in monthly production back to pre-pandemic levels, which will see only a 400,000 per barrel day lift in November. Oil prices rose by about 3%, with Brent crude hitting a three-year high of USD82 and WTI over USD78, a seven-year high. Demand for oil has recently increased, alongside the surge in global natural gas prices which we have reported about over the past couple of weeks, which is hitting Europe hard at the moment, but OPEC+ showed no willingness to lift oil production to meet demand.

The surge in energy prices is now being widely reported as a global energy crisis, that captures rising oil, natural gas and coal prices. On the latter, coal prices have soared to a record high, with thermal coal loaded on ships at Newcastle in Australia, the benchmark price for Asia, up to USD240 per metric ton, up 40% over the past month and

200% for the year to date. Shortages of coal and rising coal prices are resulting in cuts to electricity production around the world, with recent reports of power cuts across China, India and Europe, and this dynamic represents a key threat to the global growth outlook.

The other aspect of the global energy crisis is that the so-called "transitory" surge in inflation will prove to be more enduring than previously expected, testing the mettle of global central banks, including the Fed, to keep policy so stimulatory.

In other news, yesterday shares in troubled Chinese property developer Evergrande and its management arm were halted in Hong Kong pending an announcement for a general offer for shares of the company, with rival Chinese developer Hopson's shares also halted. Media reported that Hopson was expected to take a 51% stake in the property services unit, which could bring some much-needed liquidity into Evergrande to buy some time for an eventual restructure. Bloomberg reports that the Chinese government has stepped up efforts to limit the fallout from Evergrande's collapse, signalling it's willing to prop up healthy developers, homeowners and the real estate market at the expense of bondholders.

On the US-China trade war (remember that?), the USTR said that she intends to have frank conversations with her counterpart in China that will include discussion over China's performance under the Phase One agreement. The statement overall didn't look as combative as we typically saw under the Trump regime, but the US was looking to promote its own economic interests.

In currency markets, the USD had begun the week on a soft note, falling 0.2-0.3% on the DXY and BBDXY indices, giving back some of last week's gain. The NZD is up 0.3% from last week's close to 0.6965, while the AUD is up 0.4% to 0.7285. Of the other key majors, GBP has done the best, up 0.5% to 1.3610, while gains in EUR and JPY have been smaller, at less than 0.2%.

In local news, NZ's new COVID19 cases in the community continue to lift, with the 7-day moving average up to its highest in nearly four weeks (at 26), and the trend pointing higher. Despite that, the government's strategy on lockdowns has changed, with PM Ardern announcing a slight easing in Auckland's lockdown restrictions. However, these were more of a social nature and for the economy the key restrictions will remain in place until further notice.

A so-called “roadmap” was released outlining how a further loosening of restrictions might progress, but details, timelines, and targets were not provided, and so this was in the nature of another announcement about further possible announcements, with the only news that reviews will now be done on a more frequent weekly basis. Level 2 restrictions were maintained for the rest of the country.

It has become clear that lockdown restrictions will prevail for much longer than previously envisaged when the outbreak first occurred, which will act as a significant constraint on NZ’s economic performance. The OIS market lost further conviction on RBNZ rate hikes, with pricing for this Wednesday’s meeting closing down 1.5bps at 0.45%, its lowest level in six weeks, albeit still consistent with a very high 80% probability of a 25bps increase. OIS pricing for meetings beyond October, fell by a greater 4-5bps and this fed through into a 4bps fall in the 2-year swap rate to 1.38%. With most of Australia on holiday, the domestic rates market was quiet and NZGB’s showed falls of 2-3bps across the curve.

In the day ahead, the value-add of the quarterly survey of business opinion in NZ will be the indicators telling us just

how tight the labour market remains alongside the pricing indicators. The RBA policy announcement is likely to remain optimistic in tone, given the vaccine rollout, but is a non-event for the market, with the tapered QE pace set to remain until February, while Governor Lowe only recently re-iterated his view that on the Bank’s central forecast, conditions for a rate hike are unlikely to be met until 2024. Tonight, the US ISM Services index is expected to show some slippage from an elevated level.

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Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|-----------------------|--------|-------|-------|-------|
| NZ | NZIER QSBO | Q3 | | | 10:00 |
| AU | Trade balance (\$b) | Aug | 10.0 | 12.1 | 13:30 |
| AU | RBA cash rate target | Oct | 0.1 | 0.1 | 16:30 |
| AU | RBA 3-yr yield target | Oct | 0.1 | 0.1 | 16:30 |
| US | Trade balance (\$b) | Aug | -70.6 | -70.1 | 01:30 |
| US | ISM services index | Sep | 59.9 | 61.7 | 03:00 |

Source: Bloomberg, BNZ

| Foreign Exchange | | | | | | | Equities | | | | Commodities** | | | |
|---------------------------------|--------|-------|--------|--------|----------|--------|---------------|----------|--------|------|---------------|---------------------------|--------|-------|
| Indicative overnight ranges (*) | | | | | Other FX | | Major Indices | | | | Price | | | |
| | Last | % Day | Low | High | | Last | % Day | | | Last | % Day | Net Day | | |
| NZD | 0.6965 | +0.2 | 0.6932 | 0.6982 | CHF | 0.9246 | -0.7 | S&P 500 | 4,290 | -1.5 | 28.1 | Oil (Brent) | 81.63 | +3.0 |
| AUD | 0.7284 | +0.4 | 0.7251 | 0.7304 | SEK | 8.724 | -0.3 | Dow | 33,959 | -1.1 | 22.7 | Oil (WTI) | 78.02 | +2.8 |
| EUR | 1.1621 | +0.2 | 1.1596 | 1.1640 | NOK | 8.575 | -0.6 | Nasdaq | 14,229 | -2.3 | 28.5 | Gold | 1766.2 | +0.5 |
| GBP | 1.3612 | +0.5 | 1.3532 | 1.3640 | HKD | 7.787 | +0.0 | Stoxx 50 | 3,996 | -1.0 | 25.2 | HRC steel | 1916.0 | +0.0 |
| JPY | 110.90 | -0.1 | 110.82 | 111.30 | CNY | 6.445 | -0.4 | FTSE | 7,011 | -0.2 | 18.8 | CRB | 230.4 | +0.6 |
| CAD | 1.2582 | -0.5 | | | SGD | 1.357 | +0.0 | DAX | 15,037 | -0.8 | 18.5 | Wheat Chic. | 768.0 | +0.3 |
| NZD/AUD | 0.9562 | +0.1 | | | IDR | 14,267 | -0.3 | CAC 40 | 6,478 | -0.7 | 34.3 | Sugar | 19.69 | -1.8 |
| NZD/EUR | 0.5993 | +0.1 | | | THB | 33.76 | +0.3 | Nikkei | 28,445 | -1.1 | 22.0 | Cotton | 106.53 | -1.2 |
| NZD/GBP | 0.5117 | -0.2 | | | KRW | 1,182 | -0.5 | Shanghai | 3,568 | +0.9 | 10.9 | Coffee | 200.4 | -1.8 |
| NZD/JPY | 77.24 | +0.1 | | | TWD | 27.87 | +0.1 | ASX 200 | 7,279 | +1.3 | 22.5 | WM powder | 3850.0 | +0.5 |
| NZD/CAD | 0.8763 | -0.2 | | | PHP | 50.70 | -0.2 | NZX 50 | 13,337 | +0.4 | 12.1 | Australian Futures | | |
| NZ TWI | 74.37 | +0.1 | | | | | | | | | | 3 year bond | 99.505 | -0.02 |
| | | | | | | | | | | | | 10 year bond | 98.48 | 0.00 |

| Interest Rates | | | | | | | NZ Government Bonds | | | | NZ Swap Yields | | |
|----------------|-------|-------|-------------|-------|-----------------------|---------|---------------------|---------------------|------|-------|----------------|------|-------|
| | Rates | | Swap Yields | | Benchmark 10 Yr Bonds | | | | | | | | |
| | Cash | 3Mth | 2 Yr | 10 Yr | Last | Net Day | | Last | | Last | | Last | |
| USD | 0.25 | 0.13 | 0.37 | 1.49 | USD | 1.48 | -0.01 | NZGB 5 1/2 04/15/23 | 0.98 | -0.02 | 1 year | 1.04 | -0.04 |
| AUD | 0.10 | 0.02 | 0.28 | 1.66 | AUD | 1.49 | 0.00 | NZGB 0 1/2 05/15/26 | 1.50 | -0.03 | 2 year | 1.38 | -0.04 |
| NZD | 0.25 | 0.61 | 1.38 | 2.23 | NZD | 1.98 | -0.03 | NZGB 0 1/4 05/15/28 | 1.74 | -0.03 | 5 year | 1.85 | -0.02 |
| EUR | 0.00 | 0.06 | -0.44 | 0.16 | GER | -0.21 | 0.01 | NZGB 1 1/2 05/15/31 | 1.98 | -0.02 | 7 year | 2.02 | -0.02 |
| GBP | 0.10 | 0.08 | 0.69 | 1.18 | GBP | 1.01 | -0.01 | NZGB 2 05/15/32 | 2.09 | -0.02 | 10 year | 2.23 | -0.01 |
| JPY | -0.04 | -0.08 | 0.01 | 0.11 | JPY | 0.05 | -0.01 | NZGB 1 3/4 05/15/41 | 2.59 | -0.03 | 15 year | 2.44 | -0.01 |
| CAD | 0.25 | 0.45 | 0.96 | 1.93 | CAD | 1.49 | -0.02 | NZGB 2 3/4 05/15/51 | 2.78 | -0.03 | | | |

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

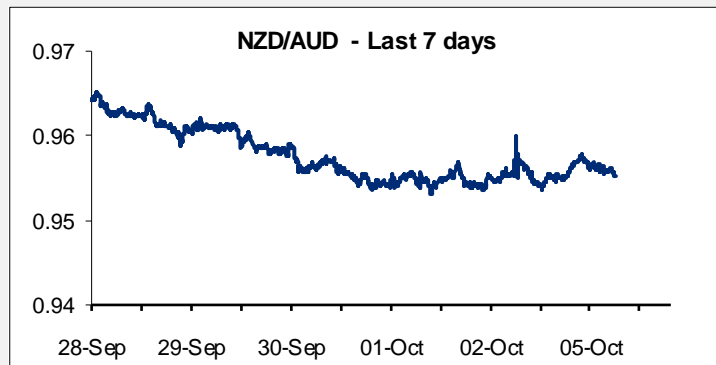
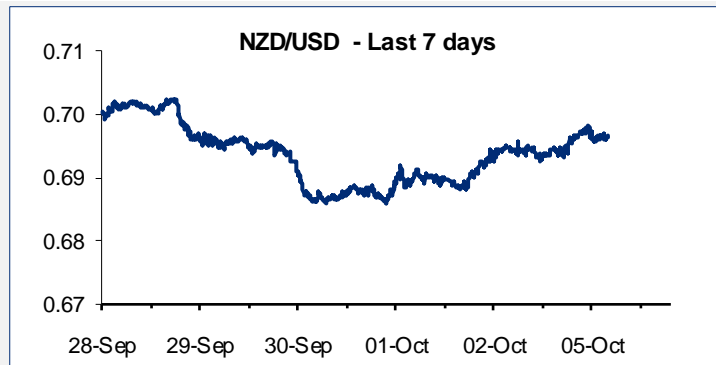
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:03

Source: Bloomberg

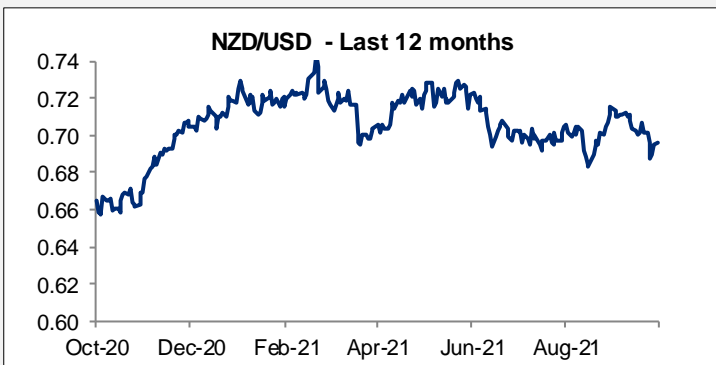
NZD exchange rates

| 5/10/2021 | 7:52 am | Prev. NY close |
|-----------|---------|----------------|
| USD | 0.6964 | 0.6948 |
| GBP | 0.5115 | 0.5129 |
| AUD | 0.9553 | 0.9573 |
| EUR | 0.5990 | 0.5992 |
| JPY | 77.20 | 77.16 |
| CAD | 0.8761 | 0.8788 |
| CHF | 0.6438 | 0.6469 |
| DKK | 4.4546 | 4.4559 |
| FJD | 1.4627 | 1.4671 |
| HKD | 5.4227 | 5.4096 |
| INR | 51.75 | 51.50 |
| NOK | 5.9700 | 5.9965 |
| PKR | 118.87 | 118.45 |
| PHP | 35.30 | 35.30 |
| PGK | 2.4316 | 2.4379 |
| SEK | 6.0748 | 6.0773 |
| SGD | 0.9451 | 0.9429 |
| CNY | 4.4882 | 4.4959 |
| THB | 23.53 | 23.37 |
| TOP | 1.5527 | 1.5677 |
| VUV | 77.99 | 77.75 |
| WST | 1.7962 | 1.7894 |
| XPF | 71.49 | 71.38 |
| ZAR | 10.4713 | 10.3413 |



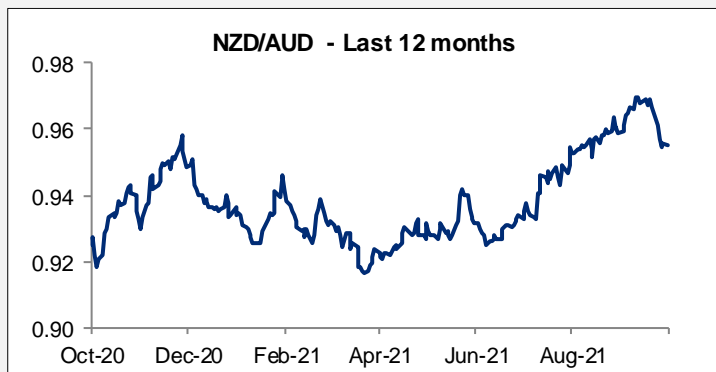
NZD/USD Forward Points

| | BNZ buys NZD | BNZ sells NZD |
|----------|--------------|---------------|
| 1 Month | -1.62 | -1.33 |
| 3 Months | -5.67 | -5.17 |
| 6 Months | -16.24 | -15.24 |
| 9 Months | -32.58 | -31.08 |
| 1 Year | -52.55 | -50.55 |



NZD/AUD Forward points

| | BNZ buys NZD | BNZ Sells NZD |
|----------|--------------|---------------|
| 1 Month | -3.76 | -3.12 |
| 3 Months | -13.21 | -12.13 |
| 6 Months | -30.41 | -28.19 |
| 9 Months | -54.63 | -51.25 |
| 1 Year | -83.04 | -78.33 |



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