

7 December 2021



## Events Round-Up

NZ: Volume building work (q/q%), Q3: -8.6 vs. -13.0

GE: Factory orders (m/m%), Oct: -6.9 vs. -0.3 exp.

## Good Morning

Whippy market conditions continue, with a new week seeing a reversal of some of Friday's price action, with US equities up about 1% and the US 10-year rate up 7bps. Oil prices are up over 3%, which has supported the AUD and CAD, but the NZD has been left behind in the commodity currency recovery, languishing around 0.6750.

Market sentiment has improved for a day at least, but with the VIX index still near 30% there is still a fairly cautious underbelly. The market might have taken some heart from US CDC head Fauci's weekend comments that the early data on Omicron are "a bit encouraging regarding the severity" of the variant. An easing of policy by China has been an added bonus.

The early indications are that the new Omicron variant is likely to evade the protections of current vaccines to at least some extent, but it is unlikely to cause more severe illness than previous variants. This is because the T-cell response is still active against Omicron, even if the mutations on the spike protein reduce the chance of antibodies to bind. A South African immunologist noted that early computer analysis backed this theory, while lab results are still in process to confirm this suspicion.

On Chinese policy, the PBoC cut the reserve ratio requirement by 0.5%, a move widely expected after Premier Li indicated as much on Friday. The move coincides with maturing loans from the medium-term lending facility worth 950b yuan, while the RRR cut will free up 1.2T yuan of liquidity, effectively providing a modest net injection.

Likely more important for the market was a report from state news agency Xinhua that outlined economic priorities for 2022 after a meeting of the communist party central committee. It contained the statement that the government would "support the commercial housing market to better meet the reasonable housing needs of buyers, and promote the healthy development of the real estate industry". The statement avoided commentary used in previous releases that took a harsher stance

towards the property market, which the market took as a signal that property curbs will be eased.

Meanwhile, more detail has been leaked on Evergrande's imminent debt restructuring, which would be the largest on record, expected to include all public bonds (including offshore) and its private debt obligations.

The economic calendar has been light to start the week. German factory orders unexpectedly slumped by 6.9% m/m in October, driven by an almost 11% fall in investment goods from outside the euro area, while domestic orders rose 3.4%.

After Friday's 0.8% fall, the S&P500 opened on a positive note and over the past few hours has hovered around the +1% mark. The Euro Stoxx 600 index closed up 1.3%, recovering much of the loss seen over the prior two sessions. US Treasury yields jumped higher on the Asian open and have pushed up further, with the 10-year rate tracking up around 1.42%, up 7bps for the day. The curve is slightly flatter, with the 2-year rate up only 4bps.

After last week's tumble (in fact six weekly consecutive falls), oil prices have opened the new week higher, currently up over 3%, with Brent crude near USD72. The combination of higher oil prices and China's policy easing have supported the AUD, up 0.6% to 0.7050 since Friday's close. The CAD has also been well supported, up 0.5%, while the NZD missed the memo, trading flat by hovering in a tight range around the 0.6750 mark, seeing a notable fall in NZD/AUD to 0.9580.

RBNZ Deputy Governor Bascand gave an interview to the FT where he said that if house prices cooled down faster than expected it could affect the RBNZ's forecast for rapid interest rate rises next year. In last month's MPS, the Bank projected 5.6% house price inflation next year but a number of anecdotes already suggest that the housing market has hit the wall, following the 180bps lift in key mortgage rates, the tighter macro prudential setting, tighter bank lending conditions and the government's investor tax changes.

Reflecting the more positive risk sentiment backdrop, JPY and CHF have been the worst performing majors. USD/PY is up 0.6% to 113.50 while the EUR has also underperformed, down 0.3% to 1.1280.

The domestic rates market saw lower rates across much of the curve yesterday, reflecting a combination of Friday's offshore moves and the modest reversal from the Asian open. The 10-year swap and NZGB rates both fell 4bps.

In the day ahead, outgoing RBNZ Deputy Governor Bascand gives an on-the-record speech on "Reflections of a Central Banker". He is too-nice and diplomatic to get stuck in and argue how central banks have sown the seeds for the next financial crisis. It is fitting then, that the RBA follows this afternoon, with a likely on-hold policy decision, which means it will keep buying \$4b of government bonds per week until at least mid-February to keep interest rates suppressed, despite a rising inflationary backdrop. Elsewhere, Chinese and US trade data, and German industrial production round out the calendar.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

		Period	Cons.	Prev.	NZT
NZ	RBNZ's Bascand speaks				09:00
AU	RBA cash rate target (%)	Dec	0.1	0.1	16:30
CH	Exports (USD, y/y%)	Nov	20.6	27.1	
CH	Imports (USD, y/y%)	Nov	21.6	20.6	
GE	Industrial production (m/m%)	Oct	0.9	-1.1	20:00
GE	ZEW survey expectations	Dec	25.0	31.7	23:00
US	Trade balance (\$b)	Oct	-66.9	-80.9	02:30

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	0.6750	+0.0	0.6741	0.6764	CHF	0.9264	+1.0		S&P 500	4,593	+1.2	24.2	Oil (Brent)	72.21	+3.4
AUD	0.7045	+0.6	0.7010	0.7054	SEK	9.097	-0.5		Dow	35,289	+2.0	16.8	Oil (WTI)	68.64	+3.7
EUR	1.1279	-0.3	1.1267	1.1310	NOK	9.102	-0.8		Nasdaq	15,209	+0.8	22.0	Gold	1778.8	-0.2
GBP	1.3253	+0.1	1.3223	1.3286	HKD	7.800	+0.1		Stoxx 50	4,137	+1.4	16.9	HRC steel	1616.0	+0.1
JPY	113.47	+0.6	113.01	113.49	CNY	6.376	-0.0		FTSE	7,232	+1.5	10.4	CRB	220.6	+0.5
CAD	1.2772	-0.5			SGD	1.370	-0.2		DAX	15,381	+1.4	15.7	Wheat Chic.	805.5	+0.2
NZD/AUD	0.9581	-0.7			IDR	14,442	+0.2		CAC 40	6,866	+1.0	22.4	Sugar	19.20	+2.3
NZD/EUR	0.5985	+0.3			THB	33.83	-0.1		Nikkei	27,927	-0.4	5.2	Cotton	110.55	+1.1
NZD/GBP	0.5093	-0.1			KRW	1,183	+0.2		Shanghai	3,589	-0.5	5.1	Coffee	249.9	+2.7
NZD/JPY	76.59	+0.5			TWD	27.72	+0.0		ASX 200	7,245	+0.1	8.5	WM powder	4240	-0.4
NZD/CAD	0.8621	-0.6			PHP	50.42	+0.1		NZX 50	12,598	-0.6	-0.5	<b>Australian Futures</b>		
NZ TWI	72.88	-0.0											3 year bond	98.95	-0.02
													10 year bond	98.41	-0.05
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					
USD	0.25	0.19	0.85	1.53	USD	1.42	0.07	NZGB 5 1/2 04/15/23	1.50	0.00	1 year	1.65	-0.00		
AUD	0.10	0.06	0.91	1.94	AUD	1.58	-0.03	NZGB 0 1/2 05/15/26	2.16	-0.03	2 year	2.23	-0.02		
NZD	0.75	0.88	2.23	2.53	NZD	2.35	-0.05	NZGB 0 1/4 05/15/28	2.24	-0.03	5 year	2.52	-0.04		
EUR	0.00	0.06	-0.36	0.11	GER	-0.39	0.00	NZGB 1 1/2 05/15/31	2.29	-0.04	7 year	2.52	-0.04		
GBP	0.10	0.09	0.99	1.01	GBP	0.74	-0.01	NZGB 2 05/15/32	2.35	-0.05	10 year	2.53	-0.04		
JPY	-0.05	-0.07	0.00	0.09	JPY	0.05	-0.01	NZGB 1 3/4 05/15/41	2.68	-0.03	15 year	2.55	-0.02		
CAD	0.25	0.50	1.57	2.00	CAD	1.51	0.07	NZGB 2 3/4 05/15/51	2.74	-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 07:01

Source: Bloomberg

**NZD exchange rates**

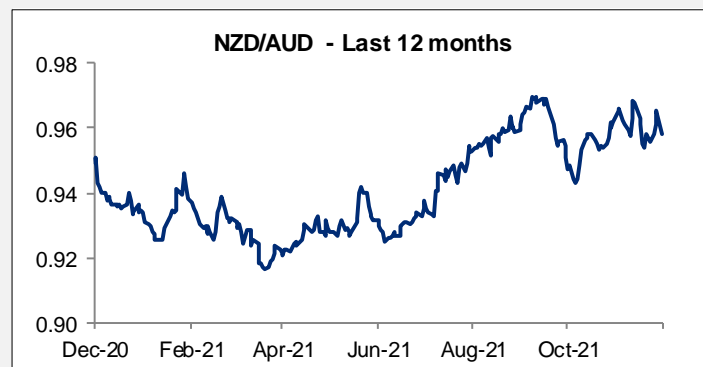
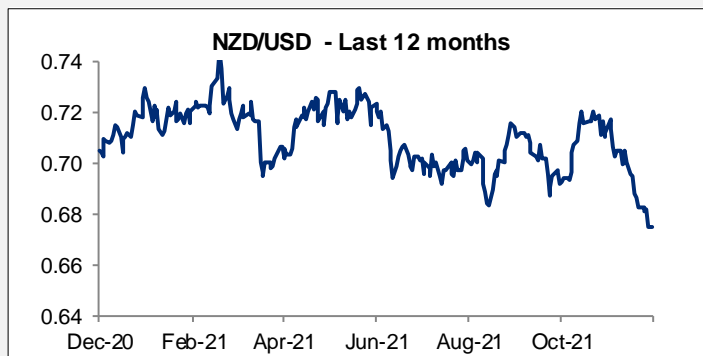
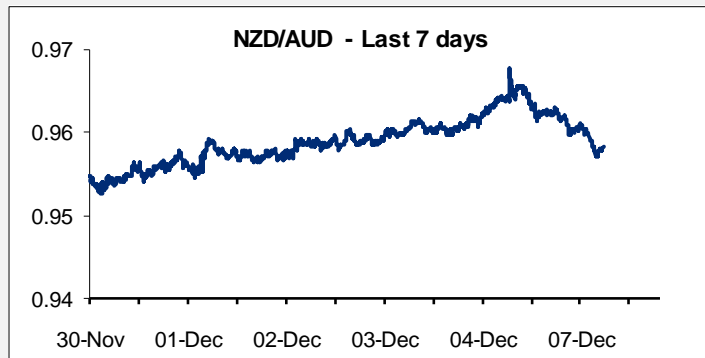
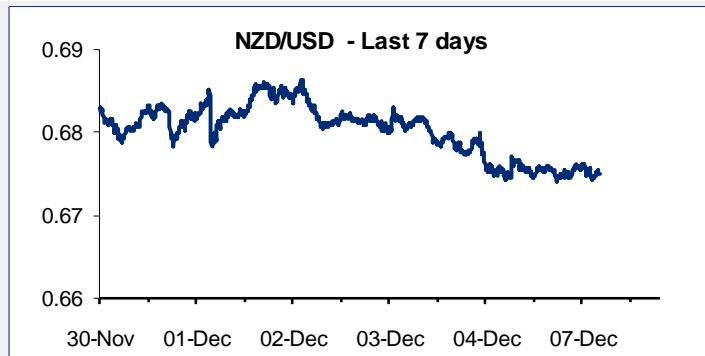
7/12/2021	7:01 am	Prev. NY close
USD	0.6750	0.675
GBP	0.5093	0.5100
AUD	0.9581	0.9641
EUR	0.5985	0.5966
JPY	76.59	76.14
CAD	0.8621	0.8669
CHF	0.6253	0.6191
DKK	4.4499	4.4358
FJD	1.4435	1.4362
HKD	5.2650	5.2619
INR	50.91	50.74
NOK	6.1441	6.1943
PKR	119.00	118.64
PHP	34.03	34.01
PGK	2.3684	2.3693
SEK	6.1406	6.1720
SGD	0.9245	0.9259
CNY	4.3040	4.3041
THB	22.88	22.86
TOP	1.5306	1.5182
VUV	77.24	76.34
WST	1.7784	1.7081
XPF	71.52	71.48
ZAR	10.7490	10.8546

**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.25	-1.69
3 Months	-8.85	-8.18
6 Months	-25.69	-24.69
9 Months	-49.23	-47.23
1 Year	-75.55	-73.55

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.66	-7.33
3 Months	-19.47	-17.92
6 Months	-45.40	-42.93
9 Months	-79.55	-75.34
1 Year	-112.90	-107.63



## 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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