

7 October 2021



Events Round-Up

NZ: RBNZ official cash rate (%), Oct: 0.5 vs. 0.5 exp.

GE: Factory orders (m/m%), Aug: -7.7 vs. -2.2 exp.

UK: Markit construction PMI, Sep: 52.6 vs. 54.0 exp.

US: ADP employment change (k), Sep: 568 vs. 430 exp.

Good Morning

A risk-off tone is evident, with global equities lower, safe-haven currencies well supported, while global rates markets show little net change. President Putin has saved a bigger market correction, by stepping in and calming the natural gas market, a recent source of angst. The NZD is near the bottom of the leaderboard, with global forces in charge and the much anticipated RBNZ rate hike not offering any support.

The see-saw pattern for the S&P500 prevalent over the past week and a bit has continued, with the market currently down 0.3%, while the Euro Stoxx 600 index fell 1%. The risk off tone reflects the now-familiar theme of concerns about the global economic outlook in the face of rising inflationary pressure, the developing energy crisis, the start of the global policy tightening cycle and China's economy. As we go to press, Senate Minority Leader Mitch McConnell is said to offer Democrats a short-term debt ceiling increase that should last through November.

Natural gas markets in Europe had a wild ride overnight, with further gains of some 40%, before Russia's President Putin saved the day by saying that the country was ready to help stabilise global energy markets and he would be asking his government and energy executives for proposals. Gasprom will send more gas via Ukraine than it is contracted to this year.

UK gas futures surged 39% to above £400/therm, before plunging 35% to £270/therm following Putin's comments. For context, this takes prices only back to where there were yesterday and still multiples higher from the £50/therm level six months ago. Dutch natural gas prices, a key benchmark for Europe, have followed the same pattern. European leaders have been urging the European Commission to do something about the energy crisis, which threatens the economic recovery and could lead to social unrest.

Putin's comments also helped drive oil prices lower, seeing Brent crude down 1½% to USD81.25.

On economic data, in the US, ADP private payrolls beat market expectations with a 568k lift in September, a three month high. The data don't always give a good steer for the key non-farm payrolls report due Friday night, but it won't sway the consensus from its pick of 500k, a figure likely good enough to trigger the Fed into a QE tapering announcement next month. German factory orders unexpectedly plunged 7.7% in August, but following a recent strong run, so it is too early to jump to conclusions.

Global rates markets show little net change, but the US 10-year rate pushed up to as high as 1.57% overnight, before falling energy prices supported a move back down to the 1.52% mark, little changed for the day and 2bps lower from the NZ close. The US 10-year break-even inflation rate reached a fresh multi-month high of 2.51% before falling back down to 2.44%.

In currency markets, the risk-off tone sees JPY as the best performer overnight and the USD well supported, with the BBDXY index up 0.3% for the day. With Europe at the centre of the energy crisis, EUR and GBP have languished, currently down to 1.1550 and 1.3575 respectively. The AUD fell to below 0.7230 during the Asian trading session and has since recovered a bit to 0.7260.

The NZD has put in a bottom-of-the-table performance over the past 24 hours, down 0.8% from this time yesterday to 0.6915, having traded down to 0.6877 last night. The market was not perturbed by the RBNZ's well-anticipated rate hike, with the algo-driven blip higher in the aftermath of the statement fading within minutes. The NZD is lower on all the key crosses.

So, as widely expected, the RBNZ kicked off the first rate hike cycle since 2014 with a 25bps lift to 0.50%. The Bank noted that the medium-term outlook for inflation and employment had not materially changed since the August MPS, even with the current lockdown restrictions. Recall that in August the Bank projected a long series of rate hikes, taking the OCR to 2% by mid-2023. The COVID19 situation isn't throwing the RBNZ off course with the Bank noting that cost pressures are becoming more persistent, some central banks have started the process of reducing policy stimulus and the Bank has confidence that economic activity will recover quickly as alert level restrictions ease.

The Bank also flagged the risk of current supply-side price shocks leading to more generalised price rises.

Market reaction was well-contained, with no real surprise in the Bank's messaging. After the market digested the statement, key swap rates pushed lower. The 2-year swap rate closed the day 1bps higher at 1.41%, but down 2bps from the 1.43% level prevailing just ahead of the RBNZ's announcement. NZGB rates were little changed for the day. The market remains well-priced for further rate hikes, with the February meeting closing at 0.945%, just shy of two further 25bps rate hikes, and further hikes well into 2022.

Finally, in the face higher inflation pressure, Poland's central bank surprised the market with its first rate hike in nine years, lifting the reference rate from the record low 0.1% to 0.5%. No analysts picked the move, given that the

hike came one day after the central bank governor said that rates could remain on hold even until 2023. This is a cautionary warning to RBA watchers who think that the Bank will continue to hold the line that conditions for a rate hike will not be met before 2024. With the number of central banks hiking rates growing by the week, an RBA hike next year shouldn't be ruled out.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	Industrial production (m/m%)	Aug	-0.5	1.0	19:00
US	Initial jobless claims (k)	2-Oct	349	362	01:30

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	0.6915	-0.7	0.6877	0.6929	CHF	0.9280	+0.0	S&P 500	4,342	-0.1	29.2		Oil (Brent)	81.28	-1.6
AUD	0.7266	-0.4	0.7226	0.7268	SEK	8.806	+0.7	Dow	34,247	-0.2	23.3		Oil (WTI)	77.75	-1.5
EUR	1.1551	-0.4	1.1529	1.1584	NOK	8.579	+0.6	Nasdaq	14,452	+0.1	29.6		Gold	1760.5	+0.1
GBP	1.3574	-0.4	1.3544	1.3614	HKD	7.786	+0.0	Stoxx 50	4,013	-1.3	24.1		HRC steel	1889.0	-1.1
JPY	111.44	-0.0	111.20	111.79	CNY	6.445	-0.4	FTSE	6,996	-1.1	17.6		CRB	235.8	+1.2
CAD	1.2594	+0.1			SGD	1.359	+0.2	DAX	14,973	-1.5	16.0		Wheat Chic.	762.0	+0.6
NZD/AUD	0.9517	-0.3			IDR	14,253	+0.0	CAC 40	6,493	-1.6	32.6		Sugar	19.77	-0.5
NZD/EUR	0.5986	-0.3			THB	33.83	+0.0	Nikkei	27,529	-1.1	17.5		Cotton	110.93	+3.7
NZD/GBP	0.5094	-0.3			KRW	1,193	+0.3	Shanghai	3,568	+0.9	10.9		Coffee	193.5	+1.0
NZD/JPY	77.06	-0.7			TWD	27.98	+0.3	ASX 200	7,207	-0.6	19.4		WM powder	3775.0	-2.3
NZD/CAD	0.8709	-0.6			PHP	50.88	+0.4	NZX 50	13,166	-0.3	9.6		Australian Futures		
NZ TWI	73.99	-0.5											3 year bond	99.45	-0.02
													10 year bond	98.41	-0.03
Interest Rates								NZ Government Bonds				NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last		Last		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	0.25	0.12	0.40	1.53	USD	1.53	0.00	NZGB 5 1/2 04/15/23	0.98	0.01	1 year	1.10	0.03		
AUD	0.10	0.02	0.30	1.67	AUD	1.61	0.10	NZGB 0 1/2 05/15/26	1.50	0.00	2 year	1.41	0.01		
NZD	0.50	0.64	1.41	2.23	NZD	2.00	0.00	NZGB 0 1/4 05/15/28	1.74	0.00	5 year	1.85	0.00		
EUR	0.00	0.06	-0.42	0.19	GER	-0.18	0.01	NZGB 1 1/2 05/15/31	2.00	0.01	7 year	2.03	0.01		
GBP	0.10	0.08	0.76	1.24	GBP	1.07	-0.01	NZGB 2 05/15/32	2.11	0.01	10 year	2.23	0.02		
JPY	-0.03	-0.08	0.02	0.13	JPY	0.08	0.02	NZGB 1 3/4 05/15/41	2.60	0.00	15 year	2.43	0.02		
CAD	0.25	0.45	0.97	1.95	CAD	1.51	-0.03	NZGB 2 3/4 05/15/51	2.79	-0.00					

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

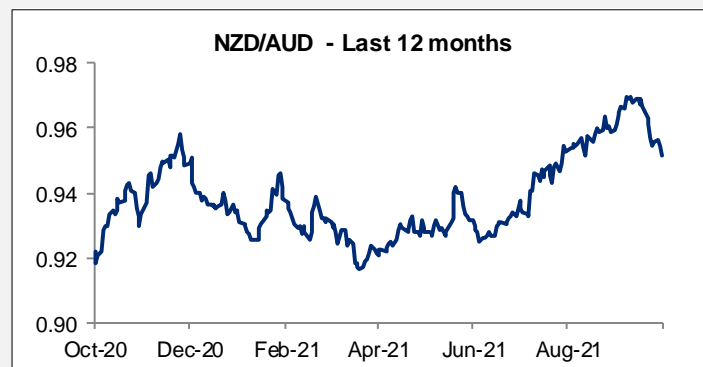
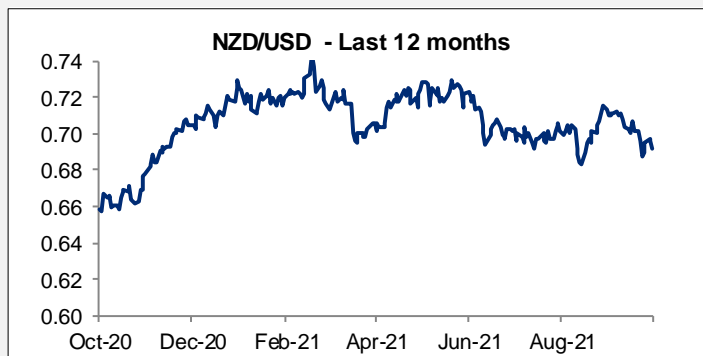
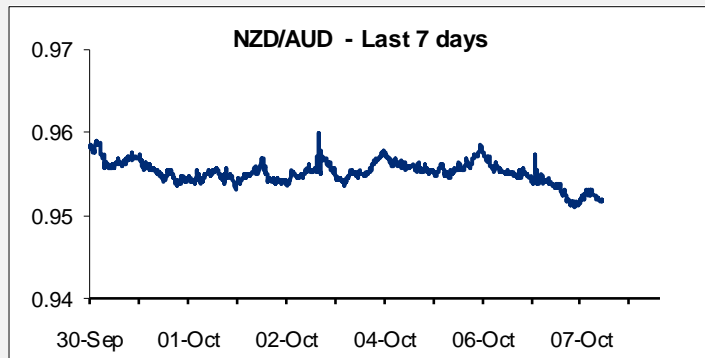
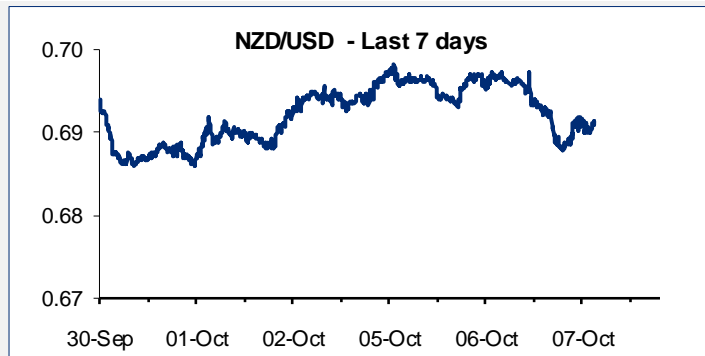
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:03

Source: Bloomberg

NZD exchange rates

7/10/2021	7:04 am	Prev. NY close
USD	0.6915	0.6963
GBP	0.5094	0.5109
AUD	0.9517	0.9549
EUR	0.5986	0.6004
JPY	77.06	77.61
CAD	0.8709	0.8762
CHF	0.6417	0.6462
DKK	4.4540	4.4657
FJD	1.4589	1.4628
HKD	5.3842	5.4213
INR	51.85	51.84
NOK	5.9325	5.9404
PKR	118.14	118.77
PHP	35.18	35.27
PGK	2.4263	2.4432
SEK	6.0893	6.0869
SGD	0.9400	0.9449
CNY	4.4566	4.5056
THB	23.46	23.50
TOP	1.5602	1.5616
VUV	76.96	77.71
WST	1.7839	1.7817
XPF	70.97	71.48
ZAR	10.3880	10.4442



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.02	-1.69
3 Months	-6.77	-6.24
6 Months	-17.67	-16.67
9 Months	-34.57	-32.84
1 Year	-55.03	-53.03

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.04	-3.33
3 Months	-14.51	-13.45
6 Months	-32.19	-30.05
9 Months	-57.32	-53.60
1 Year	-86.69	-82.22

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