

7 October 2022



Events Round-Up

GE: Factory orders (m/m), Aug: -2.4 vs. -0.7 exp.

US: Initial jobless claims (k), 1-Oct: 219 vs. 205 exp.

Good Morning

On a quiet day for newsflow, there have been some significant market moves ahead of tonight's key US employment report. Risk appetite has reversed course, seeing the NZD plunge almost 3% peak-to-trough, after a local trading session that saw it trade above 0.58. The USD has shown broadly based gains and US equities are weaker after futures had pointed higher yesterday. Global rates are higher again.

The positive vibe that had engulfed markets earlier this week extended further during NZ trading hours yesterday, but for no obvious reason, risk appetite has turned lower. US jobless claims unexpectedly jumped higher and bad news is good news these days, but that only had a short-term impact on US equities and bonds. Hawkish central bank talk might be one factor for weaker risk appetite, although we haven't really heard anything new, and it might be just a case of traders resetting positions ahead of tonight's US employment report.

The economic calendar has been light. Germany factory orders slumped 2.4% m/m in August, making it six falls over the past seven months, and another indicator of Germany being in, or on the brink, of economic recession. US jobless claims broke a string of lower-than-expected surprises to jump from 190k to 219k last week, a possible sign that the downward trend has been broken, adding to story of other labour market data that the market has turned weaker.

The IMF signalled a downgrade, for the fourth consecutive quarter, to its updated global growth forecasts to be published next week. The head of the IMF said that a third of the world's economy would suffer a recession next year and many others would feel like they were in recession, against backdrop of shrinking real incomes and rising prices.

The BoE defended its UK gilt buying intervention in a formal letter from Deputy Governor Cunliffe to the chair of Parliament's Treasury committee. The BoE noted UK-specific factors as the root cause, and the Bank had been warned by liability driven investment (LDI) managers that

they would be forced into dumping more UK gilts that would create a downward spiral in gilt prices. Had the BoE not intervened, widespread financial instability would have ensued.

In the first week of programme, the BoE bought only £3.8b gilts, well below the potential maximum of £35b. Having the BoE as a backstop has supported the market, but traders are now worried what happens when the backstop ends in a week. LDI funds have been actively selling billions of pounds of their most liquid assets to deleverage, centred around European and US credit and US Treasuries.

UK gilt yields are much higher across the curve, led by the long end. The 10-year rate is up 13bps on the day to 4.15%. Higher UK rates have spilled over into other markets, with European 10-year rates up in the order of 4-5bps and the US 10-year rate currently up 5bps to 3.80%, well up from the 3.56% low reached earlier this week.

US Fed speakers continue to offer a hawkish narrative, with Kashkari indicating the Bank was "quite a ways away" from pausing the hiking cycle, the same language as used by other FOMC members. Newly elected Governor Cook, showed off his hawkish credentials with a similar tone, noting labour market strength, "stubbornly and unacceptably high" inflation, and repeating the mantra that the Fed was likely to keep policy restrictive for some time.

Bank of Canada Governor Macklem delivered a hawkish speech, saying that inflation will "not fade away by itself" and "simply put, there is more to be done...the clear implication is that further interest rate increases are warranted...we will need additional information before we consider moving to a more finely balanced decision-by-decision approach". This puts the BoC firmly in the camp of the hawkish RBNZ and US Fed and leaves the RBA's dovish pivot earlier this week as an outlier.

In currency markets the swing in risk appetite has been a key driver over the past 24 hours. The NZD and AUD ascended during NZ trading hours, with the NZD piercing up through 0.58, peaking just under 0.5815 before plunging almost 3% to about 0.5640. It currently trades around 0.5660. The AUD traded up to 0.6540, plunging down to 0.6390 and since settling just over 0.64. Of the commodity currencies, CAD has performed better, helped by the hawkish BoC Governor, but is still down over 1% from the NZ close.

The USD shows broadly based strength, with EUR taking another look below 0.98 and GBP down over 2% at one stage to 1.1115, since recovered to 1.1185. USD/JPY traded temporarily above 145, the level seen to get the attention of the MoF's intervention team and it currently sits near that level.

The domestic rates market continues to be at the whim of global forces, with the 2-year swap rate closing 16bps higher at 4.62% and the 10-year rate up 9bps to 4.35%. NZGB yields out to 10-years were up in the order of 11-12bps. Given offshore moves overnight, there will be further upside pressure on the open, with Australia's 10-year bond future up in the order of 4-5bps in yield terms since the NZ close.

In the day ahead, Fed speakers remain out in force, with Waller and Mester during NZ trading hours and Williams tonight. But there will be more interest in the US employment report, with a surprise in either direction likely to have an outsized impact on markets. The consensus sees employment growth moderating to 260k, a

steady unemployment rate of 3.7% and modest average hourly earnings growth of 0.3% m/m, dragging annual wage inflation down to 5.0% y/y.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
US	Fed's Waller discusses the economic outlook				10:00
US	Fed's Mester discusses the economic outlook				11:30
AU	RBA Financial Stability Review				13:30
GE	Industrial prod. (m/m%)	Aug	-0.5	-0.3	19:00
CH	Foreign reserves (\$b)	Sep	2998	3055	
CA	Unemployment rate (%)	Sep	5.4	5.4	01:30
US	Chg in nonfarm payrolls (k)	Sep	260	315	01:30
US	Unemployment rate (%)	Sep	3.7	3.7	01:30
US	Avg hrly earnings (y/y%)	Sep	5.0	5.2	01:30
US	Fed's Williams speaks in moderated Q&A				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	0.5660	-1.4	0.5640	0.5794	CHF	0.9900	+0.6		S&P 500	3,765	-0.5	-13.7	Oil (Brent)	94.37	+1.1
AUD	0.6417	-1.1	0.6390	0.6527	SEK	11.121	+1.2		Dow	30,021	-0.9	-12.8	Oil (WTI)	88.44	+0.8
EUR	0.9812	-0.7	0.9788	0.9923	NOK	10.689	+1.7		Nasdaq	11,122	-0.2	-23.3	Gold	1711.7	-0.1
GBP	1.1183	-1.3	1.1114	1.1364	HKD	7.850	-0.0		Stoxx 50	3,433	-0.4	-14.4	HRC steel	750.0	-0.9
JPY	144.97	+0.2	144.49	145.08	CNY	7.116	-0.1		FTSE	6,997	-0.8	0.0	CRB	281.9	+0.5
CAD	1.3737	+0.9			SGD	1.428	+0.1		DAX	12,471	-0.4	-16.7	Wheat Chic.	892.3	-2.5
NZD/AUD	0.8820	-0.2			IDR	15,188	-0.0		CAC 40	5,936	-0.8	-8.6	Sugar	18.46	+2.8
NZD/EUR	0.5768	-0.6			THB	37.40	-0.2		Nikkei	27,311	+0.7	-1.3	Cotton	91.23	-5.1
NZD/GBP	0.5061	-0.1			KRW	1,403	-0.6		Shanghai	3,024	-0.6	-15.2	Coffee	217.7	-3.4
NZD/JPY	82.05	-1.1			TWD	31.51	-0.1		ASX 200	6,818	+0.0	-6.1	WM powder	3660	+0.5
NZD/CAD	0.7775	-0.5			PHP	58.66	+0.0		NZX 50	11,125	-0.5	-15.1	Australian Futures		
NZ TWI	67.50	-1.0											3 year bond	96.525	-0.04
													10 year bond	96.14	-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	3.25	3.78	4.52	3.82	USD	3.80	0.05	NZGB 0 1/2 05/15/24	4.03	0.12	1 year	4.58	0.13		
AUD	2.60	2.87	3.80	4.37	AUD	3.78	0.14	NZGB 4 1/2 04/15/27	4.08	0.12	2 year	4.62	0.16		
NZD	3.50	3.86	4.64	4.39	NZD	4.17	0.11	NZGB 3 04/20/29	4.10	0.12	5 year	4.37	0.12		
EUR	0.75	1.20	2.86	3.08	GER	2.09	0.05	NZGB 1 1/2 05/15/31	4.13	0.12	7 year	4.34	0.10		
GBP	2.25	3.30	5.35	4.49	GBP	4.17	0.13	NZGB 2 05/15/32	4.17	0.11	10 year	4.35	0.09		
JPY	-0.04	-0.04	0.14	0.53	JPY	0.25	0.00	NZGB 1 3/4 05/15/41	4.59	0.09	15 year	4.39	0.09		
CAD	3.25	4.27	4.42	3.81	CAD	3.32	0.04	NZGB 2 3/4 05/15/51	4.52	0.09					

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

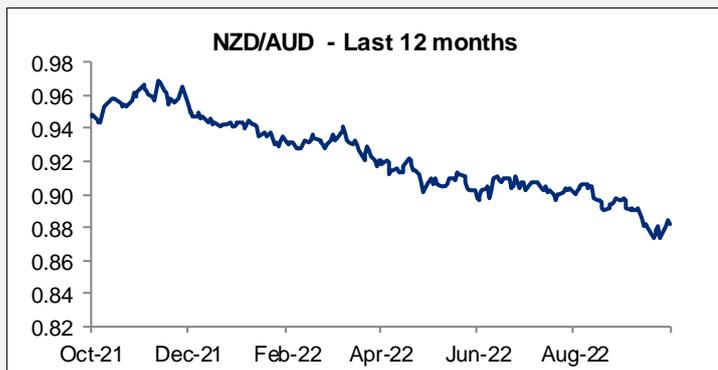
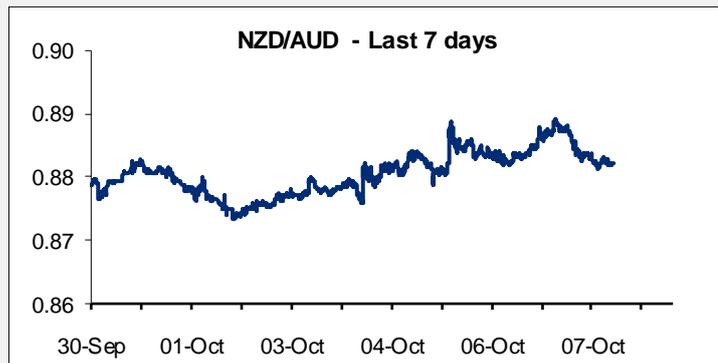
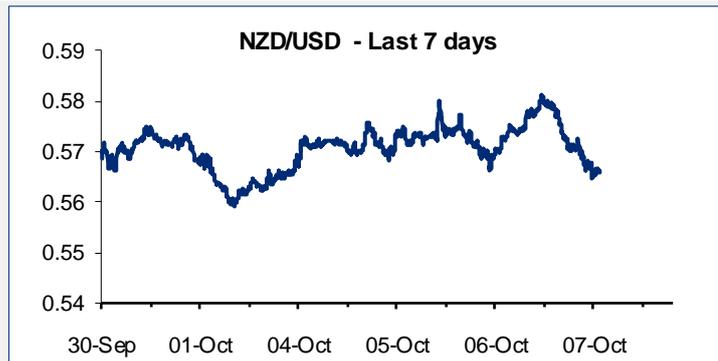
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:04

Source: Bloomberg

NZD exchange rates

7/10/2022	7:04 am	Prev. NY close
USD	0.5660	0.5739
GBP	0.5061	0.5067
AUD	0.8820	0.8846
EUR	0.5768	0.5806
JPY	82.05	83.01
CAD	0.7775	0.7816
CHF	0.5603	0.5646
DKK	4.2912	4.3204
FJD	1.3078	1.3251
HKD	4.4430	4.5051
INR	46.35	46.78
NOK	6.0498	6.0307
PKR	125.38	128.69
PHP	33.21	33.67
PGK	1.9930	2.0208
SEK	6.2944	6.3041
SGD	0.8082	0.8185
CNY	4.0277	4.0890
THB	21.13	21.47
TOP	1.3435	1.3651
VUV	69.47	70.15
WST	1.5804	1.5875
XPF	68.75	70.21
ZAR	10.1447	10.2060



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.76	1.29
3 Months	4.44	5.17
6 Months	10.06	11.56
9 Months	12.12	15.16
1 Year	13.28	16.28

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.75	-3.45
3 Months	-17.17	-15.39
6 Months	-33.11	-29.25
9 Months	-44.69	-37.31
1 Year	-54.60	-44.89

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

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