

8 December 2021



Events Round-Up

AU: RBA cash rate target (%), Dec: 0.1 vs. 0.1
 CH: Exports (USD, y/y%), Nov: 22.0 vs. 20.3 exp.
 CH: Imports (USD, y/y%), Nov: 31.7 vs. 21.5 exp.
 GE: Industrial production (m/m%), Oct: 2.8 vs. 1.0 exp.
 GE: ZEW survey expectations, Dec: 29.9 vs. 25.4 exp.
 US: Trade balance (\$b), Oct: -67.1 vs. -66.8 exp.
 NZ: GDT dairy auction price index (%): 1.4 vs 1.9 prev.

Good Morning

Risk sentiment has recovered further, with a more than 2% gain in US and European equities, a 4% lift in oil prices and US rates pushing higher. Commodity currencies have outperformed although the NZD has lagged the movement in AUD and CAD again, with only a modest gain to 0.6775.

The positive turnaround in risk sentiment has extended into another session, with the market seemingly less concerned about the Omicron variant of COVID19 and the easing in China's policy settings noted yesterday providing additional support.

The market is still awaiting hard confirmation from studies that Omicron, while likely more transmissible than Delta, does not lead to more severe health implications. But emerging evidence firstly from South Africa, and across clusters in Norway and Denmark, still seems to point in that direction. The Norwegian Institute of Public Health said "The Omicron variant is unlikely to cause more serious disease in vaccinated people...vaccination will provide a high degree of protection." Also on a positive note, GSK and Vir Biotechnology said their COVID19 antibody drug "sotrovimab" was slightly weakened by Omicron, but that the difference was not significant.

China's troubled property developer Evergrande missed a payment deadline on some USD bonds, setting off the process for default and the beginning of a restructure that is widely anticipated to include the government's help to limit contagion risk. The cut to the RRR for banks and indications that policies which curbed the property market will be eased a little, as noted yesterday, are all part of the process to support the economy through this difficult period.

Economic data released have been on the positive side. China export and import growth were both stronger than expected in November, the former pointing to still-solid global demand and the surprise 32% lift in imports was supported by a rebound in commodity volumes such as coal, iron ore and copper ore. The US trade deficit moderated in October, as suggested by the advanced estimate for goods. Germany industrial production rose a strong 2.8% m/m in October, a bounce-back from the notable contraction through August/September.

Less reassuring for the market was a US Conference Board survey of companies showing that companies are setting aside an average 3.9% of total payroll for wage increases next year, the most since 2008, with pay raises expected to be broadly based across different pay scales. The survey suggests that the recent acceleration in private sector wages is likely to carry over into next year and adds to the calls for the Fed to tighten monetary policy.

After a pause in the trend yesterday, the US Treasuries curve is back in a mood to flatten, with the 2-year rate up 5bps to a fresh high of 0.68%, while the 10-year rate is up 3bps to 1.47% – the latter up some 13bps from last week's trough but still curiously low in the context of rampant inflation, with some in the market picking annual CPI inflation printing as high as 7% at the end of the week.

The "buy-the-dip" mentality remains a feature of US equity markets, with the easing of Omicron concerns leading to a strong 2.1% gain in the S&P500, taking the index within about 1% of the record high printed late last month, while the Nasdaq index is up over 3%. The Euro Stoxx 600 index closed up 2½%.

After yesterday's meaty 4½% gain, Brent crude is up another 4% to USD76. After the 8% gain in iron ore in the previous session, it's up another 2% for the day, taking it to \$115 per ton, on expectations that China's relaxation of property curbs will support demand.

The overnight GDT dairy auction price index rose by 1.4%, continuing the positive run in pricing, with price gains across all product groups. Whole milk powder prices rose by 0.6%, skim milk powder rose by 1.3%, cheddar rose by 1.0% and there were even larger gains across the remaining products, including a 4.6% lift in butter prices. Milk price futures continue to sit around \$9 for FY22, while the lift in dairy prices alongside a weaker NZD have recently pushed up futures for FY23 to \$8.75, representing

expected mega payouts for dairy farmers for two years running.

The positive risk backdrop sees commodity currencies at the top of the leaderboard. The AUD and CAD show the strongest gains for the past 24 hours, up in the order of 1%, the former back up through 0.71 after briefly going sub-70 at the end of last week. The NZD has lagged the move, up a 0.4% gain since this time yesterday to 0.6775. EUR and GBP are both lower at 1.1240 and 1.3225 respectively and the yen is on the soft side as well. So while NZD/AUD has pushed down further to 0.9525, the NZD shows decent gains on the crosses, with NZD/EUR up to 0.6025, NZD/GBP at 0.5120 and NZD/JPY regaining 77.

The RBA policy update didn't surprise, with its ongoing plan for QE through to February and subdued rates outlook, but the market read the minor tweaks in the Statement as more hawkish, with the Bank not seeing Omicron derailing the economic recovery and removing reference to its inflation and wages view from the final paragraph. The 3-year bond future has risen 12bps in yield since the Statement, even though the market has already priced in a number of rate hikes over coming years against the RBA's sanguine view, while the 10-year rate is up 7bps in yield. Adding to the immediate post-RBA move was an article overnight by respected RBA-watcher McCrann, which talked about the potential for rate hikes next year.

The NZ rates market showed some dysfunction, with a notable narrowing of swap spreads, particularly at the short end of the curve, with the 2024-2025 bonds up 11bps in yield, against a 3bps lift in equivalent swap yields. This reverses some of the widening in swap spreads seen recently, but why the big move yesterday remains somewhat of a mystery. The 10-year NZGB yield rose 6bps to 2.35% against a 4bps lift in the 10-year swap rate. Given the lift in Australian rates since the NZ close, one would expect rates to jump higher on the open.

The Bank of Canada meets tonight and is widely expected to adopt a more hawkish tone, given the recent lift in inflationary pressure and last week's blockbuster labour market report. The market is well priced for a long series of rate hikes beginning from about March next year, which should limit market reaction to a more hawkish tone.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
CA	Bank of Canada policy rate (%)	Dec	0.25	0.25	04:00
US	JOLTS job openings (m)	Oct	10.5	10.4	04:00

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	0.6775	+0.3	0.6753	0.6787	CHF	0.9265	+0.1	S&P 500	4,688	+2.1	27.0		Oil (Brent)	75.80	+3.7
AUD	0.7112	+0.9	0.7080	0.7123	SEK	9.128	+0.3	Dow	35,748	+1.5	18.9		Oil (WTI)	72.45	+4.2
EUR	1.1244	-0.4	1.1228	1.1298	NOK	9.041	-0.6	Nasdaq	15,712	+3.2	25.5		Gold	1784.9	+0.4
GBP	1.3227	-0.3	1.3209	1.3288	HKD	7.797	-0.1	Stoxx 50	4,276	+3.4	21.1		HRC steel	1616.0	+0.0
JPY	113.73	+0.2	113.46	113.78	CNY	6.366	-0.2	FTSE	7,340	+1.5	12.0		CRB	223.2	+1.2
CAD	1.2660	-0.8			SGD	1.367	-0.1	DAX	15,814	+2.8	19.2		Wheat Chic.	806.8	+0.0
NZD/AUD	0.9526	-0.5			IDR	14,378	-0.4	CAC 40	7,065	+2.3	26.8		Sugar	19.49	+1.8
NZD/EUR	0.6025	+0.7			THB	33.64	-0.6	Nikkei	28,456	+1.9	7.5		Cotton	111.39	-0.6
NZD/GBP	0.5122	+0.6			KRW	1,179	-0.3	Shanghai	3,595	+0.2	5.4		Coffee	244.5	-2.1
NZD/JPY	77.05	+0.5			TWD	27.76	+0.1	ASX 200	7,314	+1.0	9.4		WM powder	4240	+0.0
NZD/CAD	0.8577	-0.5			PHP	50.38	-0.1	NZX 50	12,610	+0.1	-0.9		Australian Futures		
NZ TWI	72.97	+0.1											3 year bond	98.805	-0.14
													10 year bond	98.31	-0.08
Interest Rates								NZ Government Bonds				NZ Swap Yields			
Rates	Swap Yields				Benchmark 10 Yr Bonds				Last				Last		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	0.25	0.19	0.90	1.56	USD	1.47	0.03	NZGB 5 1/2 04/15/23	1.52	0.02			1 year	1.67	0.03
AUD	0.10	0.06	1.00	2.00	AUD	1.65	0.07	NZGB 0 1/2 05/15/26	2.25	0.09			2 year	2.26	0.03
NZD	0.75	0.88	2.26	2.57	NZD	2.41	0.07	NZGB 0 1/4 05/15/28	2.32	0.08			5 year	2.55	0.03
EUR	0.00	0.06	-0.35	0.10	GER	-0.38	0.01	NZGB 1 1/2 05/15/31	2.35	0.06			7 year	2.56	0.04
GBP	0.10	0.08	0.99	1.00	GBP	0.73	-0.01	NZGB 2 05/15/32	2.41	0.07			10 year	2.57	0.04
JPY	-0.05	-0.07	0.00	0.09	JPY	0.06	0.01	NZGB 1 3/4 05/15/41	2.75	0.06			15 year	2.58	0.04
CAD	0.25	0.50	1.63	2.06	CAD	1.57	0.04	NZGB 2 3/4 05/15/51	2.81	0.06					

* 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 06:59

Source: Bloomberg

NZD exchange rates

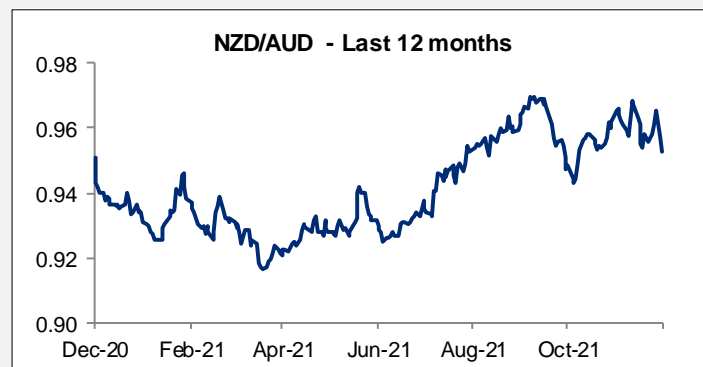
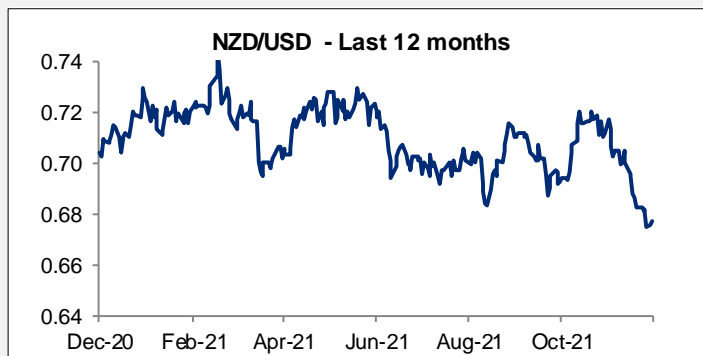
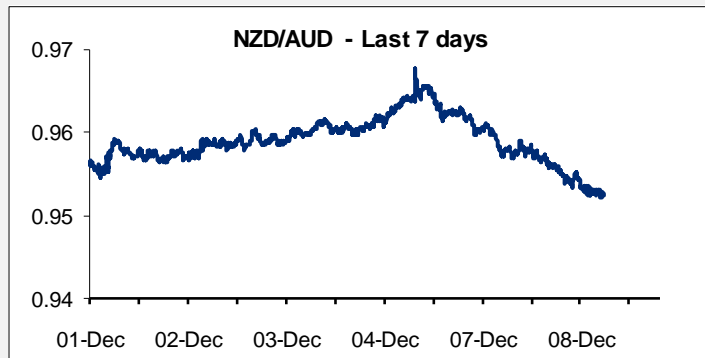
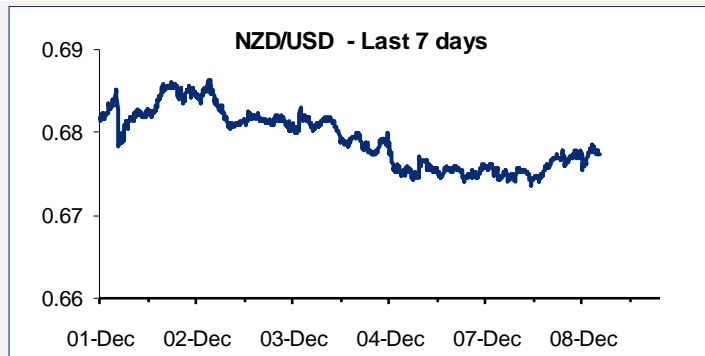
8/12/2021	7:00 am	Prev. NY close
USD	0.6775	0.6753
GBP	0.5122	0.5091
AUD	0.9526	0.9579
EUR	0.6025	0.5984
JPY	77.05	76.63
CAD	0.8577	0.8614
CHF	0.6277	0.6249
DKK	4.4803	4.4496
FJD	1.4492	1.4402
HKD	5.2821	5.2677
INR	51.10	50.93
NOK	6.1250	6.1394
PKR	119.50	119.05
PHP	34.13	34.05
PGK	2.3822	2.3711
SEK	6.1844	6.1426
SGD	0.9263	0.9243
CNY	4.3132	4.3059
THB	22.82	22.89
TOP	1.5338	1.5313
VUV	77.24	77.11
WST	1.7688	1.7720
XPF	71.80	71.51
ZAR	10.7549	10.7499

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.10	-1.58
3 Months	-8.57	-8.03
6 Months	-25.21	-24.21
9 Months	-48.78	-46.78
1 Year	-75.25	-73.25

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.82	-6.63
3 Months	-18.39	-16.85
6 Months	-44.00	-41.21
9 Months	-76.99	-72.83
1 Year	-108.92	-103.99



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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.