

8 November 2021



## Events Round-Up

GE: Industrial production (m/m%), Sep: -1.1 vs. 1 exp.  
 US: Change in nonfarm payrolls (k), Oct: 531 vs. 450 exp.  
 US: Unemployment rate (%), Oct: 4.6 vs. 4.7 exp.  
 US: Average hourly earnings (m/m%), Oct: 0.4 vs. 0.4 exp.  
 US: Average hourly earnings (y/y%), Oct: 4.9 vs. 4.9 exp.  
 CA: Unemployment rate (%), Oct: 6.7 vs. 6.8 exp.  
 CH: Exports (US\$, y/y%), Oct: 27.1 vs. 22.8 exp.  
 CH: Imports (US\$, y/y%), Oct: 20.6 vs. 26.2 exp.

## Good Morning

Friday's nonfarm payrolls report was stronger than expected, although it is unlikely to change the Fed's economic outlook and tapering plans. Global rates fell sharply, with the US 10-year rate dropping to 1.45%, as the market continued to digest the BoE's on-hold decision the previous night. Equities continue to grind higher while the USD was slightly weaker, the NZD ending the week around 0.7120. Over the weekend, US Congress finally passed Biden's \$1.2tn infrastructure bill.

The nonfarm payrolls report was a strong one, with the US recording 531k new jobs in October (450k expected) and the previous two months' jobs numbers revised up by a hefty 235k. The disappointing September payrolls gain of 194k has been revised to a more respectable 312k. Meanwhile the unemployment rate fell from 4.8% to 4.6% (4.7% expected) while wage growth remained robust, with average hourly earnings growing by 0.4% on the month. Job growth is likely to pick up in the coming months too following the end of generous unemployment benefits, the return of schools and the decline in Covid-19 cases, which should reduce hesitancy about returning to the workforce.

Ordinarily, a universally strong payrolls report such as this would see an increase in US rates and an appreciation in the USD. But this was not the case on Friday. After popping higher immediately after the release, US rates then reversed sharply lower, with the 10-year rate falling 7bps on the session, to 1.45%, a six-week low. And the market pushed back the expected timing of the Fed's initial rate hike to September next year, with now less than two full hikes priced in by the end of 2022. The BBDXY index, which was higher earlier in the session and trading near its year-to-date high, fell 0.4% after the report was released.

The fact that US rates failed to push higher after payrolls might be related to a few factors. First, market expectations were likely higher than the consensus estimate among economists, following the strong ADP report earlier in the week. Second, the data is unlikely to knock the Fed off its \$15b per month tapering timeline, which implies rate hikes are unlikely before July, at the earliest. Third, market positioning may have been a factor, with JP Morgan's survey of investors showing 'short' positioning (i.e. betting on higher rates) still dominates.

In addition, the market continues to digest the Bank of England's shock on-hold decision from the previous night, which appears to have caused investors to reassess how other central banks might respond to above-target inflation. The UK 2-year rate fell another 10bps on Friday, with the bulk of the move taking place before the nonfarm payrolls data were released. 10-year rates in Europe were lower by 4-6bps.

The pullback in central bank rate hike expectations has been supportive of equities, which continue to relentlessly grind higher. The S&P500 was up 0.4% on Friday, taking its gain on the week to 2%, while the NASDAQ inched up 0.2%, leaving it with a 3.1% gain on the week.

Also supporting risk sentiment was news from Pfizer that its Covid-19 treatment pill, Paxlovid, was found to reduce the risk of hospitalisation or death by 89% in trials. The results are even more impressive than those of Merck, whose treatment pill, molnupiravir, was found to reduce these risks by 50%. An index of airline, hotel and cruise ship stocks jumped by 4.3% on Friday, suggesting a positive read across to the economic outlook, while Pfizer's share price increased almost 11%.

FX market moves were modest on Friday, with the G10 currencies all contained to within +/-0.3% against the USD. The EUR hit a new year-to-date low immediately after payrolls, but recovered to finish 0.1% higher, at 1.1570. The NZD and AUD followed a similar pattern, with the NZD ending up 0.2%, at around 0.7220. The AUD was the weakest of the majors last week, down 1.6%, after the RBA's dovish messaging at its November board meeting.

After months of infighting in the Democrat party, US Congress finally passed Biden's \$1.2tn infrastructure bill over the weekend and it should be signed into law by Biden in the next few days. The infrastructure spending will be spread out over a number of years, unlike the \$2tn

fiscal package signed off earlier in the year, which provided a more immediate stimulus injection into the economy. Focus now turns to Biden's \$1.75tn 'Build Back Better' social spending bill which faces significant hurdles to satisfy both progressive and centrist wings of the party.

The RBA's Statement of Monetary Policy on Friday didn't provide any major surprises. The RBA's central case, predicated on inflation increasing only very gradually, is still that the initial rate hike in the cycle will come in 2024 while its upside scenario implied lift-off in early 2023. Forecasting several years into the future is a difficult exercise at the best of times, let alone after a pandemic, and it's fair to say the market expects higher inflation than the RBA does and consequently an earlier start to the rate hike cycle (the first hike is fully priced in by July next year).

Domestic rates were lower on Friday, in sympathy with the moves offshore after the BoE surprised markets by not hiking its cash rate. The 2-year swap rate was 6bps lower on the day while 5 and 10-year rates were 2bps lower. Last week finally saw some consolidation in NZ rates after their steep increases during October, and rates are likely to open lower again this morning following the post-payrolls moves in offshore markets.

The highlights of the week ahead include US CPI and the Australian labour market report. US headline CPI inflation is expected to hit 5.9% y/y, which would be its highest level since the early 1990s, while core inflation is expected to rebound to 4.3% y/y amidst broadening underlying inflation pressures. Our NAB colleagues expect a higher-than-consensus 80k increase in Australian jobs in October, the month that the NSW state government started loosening Covid-related restrictions. In NZ, the highlight is the preliminary ANZ Business Survey for November, with focus on both the activity indicators and pricing gauges. Finally, it's possible Biden could announce his pick for Fed Chair this week, having met both current Chair Powell and the other main contender, Fed Governor Brainard, on Thursday. The strong consensus is that Powell will be reappointed.

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## Coming Up

	Period	Cons.	Prev.	NZT
EC	ECB's Lane Speaks			02:10
US	Fed's Harker Speaks to Economic Club of New York			06:00
US	Fed's Evans Speaks on Economy and Monetary Policy			07:50

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	0.7117	+0.2	0.7073	0.7127	CHF	0.9127	+0.0	S&P 500	4,698	+0.4	33.8	Oil (Brent)	82.65	+2.6
AUD	0.7400	-0.0	0.7360	0.7412	SEK	8.571	-0.2	Dow	36,328	+0.6	28.0	Oil (WTI)	81.27	+3.1
EUR	1.1567	+0.1	1.1514	1.1569	NOK	8.559	+0.0	Nasdaq	15,972	+0.2	34.3	Gold	1816.8	+1.3
GBP	1.3498	-0.0	1.3424	1.3509	HKD	7.783	+0.0	Stoxx 50	4,363	+0.7	35.7	HRC steel	1790.0	+0.0
JPY	113.41	-0.3	113.30	114.03	CNY	6.399	+0.0	FTSE	7,304	+0.3	23.7	CRB	235.0	+0.7
CAD	1.2457	+0.0			SGD	1.350	-0.1	DAX	16,054	+0.2	27.7	Wheat Chic.	779.8	-0.8
NZD/AUD	0.9618	+0.2			IDR	14,331	-0.2	CAC 40	7,041	+0.3	41.3	Sugar	19.94	+1.6
NZD/EUR	0.6153	+0.1			THB	33.26	-0.2	Nikkei	29,612	-0.6	21.7	Cotton	116.87	+0.4
NZD/GBP	0.5273	+0.2			KRW	1,185	+0.2	Shanghai	3,492	-1.0	5.4	Coffee	206.4	-2.4
NZD/JPY	80.71	-0.1			TWD	27.87	+0.0	ASX 200	7,457	+0.4	20.5	WM powder	4000.0	+0.0
NZD/CAD	0.8866	+0.2			PHP	50.34	-0.6	NZX 50	13,075	+1.0	6.0	<b>Australian Futures</b>		
NZ TWI	75.74	+0.2										3 year bond	98.97	0.00
												10 year bond	98.26	0.02
Interest Rates														
Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Last	Last	Last	Last			
USD	0.25	0.14	0.60	1.48	USD	1.45	-0.07	NZGB 5 1/2 04/15/23	1.59	0.00	1 year	1.56	-0.02	
AUD	0.10	0.05	0.80	1.95	AUD	1.81	-0.02	NZGB 0 1/2 05/15/26	2.25	-0.04	2 year	2.20	-0.06	
NZD	0.50	0.80	2.20	2.67	NZD	2.57	-0.04	NZGB 0 1/4 05/15/28	2.40	-0.04	5 year	2.60	-0.02	
EUR	0.00	0.06	-0.37	0.10	GER	-0.28	-0.06	NZGB 1 1/2 05/15/31	2.52	-0.04	7 year	2.63	-0.02	
GBP	0.10	0.23	0.95	1.09	GBP	0.85	-0.10	NZGB 2 05/15/32	2.57	-0.04	10 year	2.67	-0.02	
JPY	-0.05	-0.08	0.00	0.11	JPY	0.06	-0.01	NZGB 1 3/4 05/15/41	2.84	-0.02	15 year	2.77	-0.02	
CAD	0.25	0.48	1.41	2.04	CAD	1.59	-0.07	NZGB 2 3/4 05/15/51	2.90	-0.03				

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

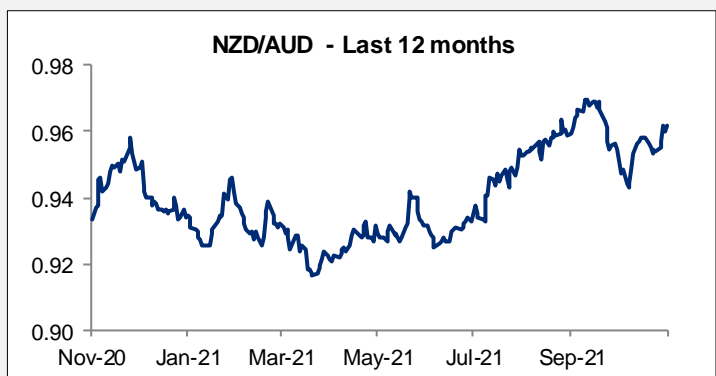
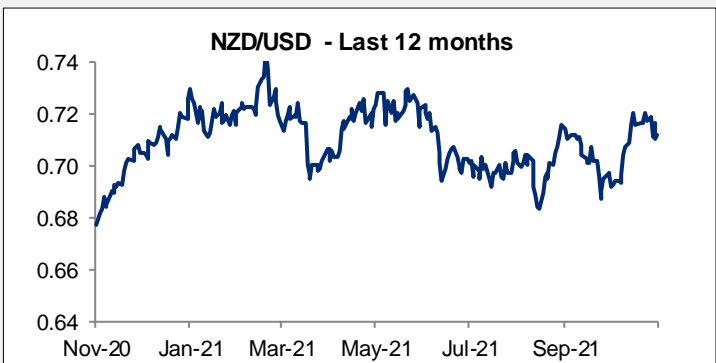
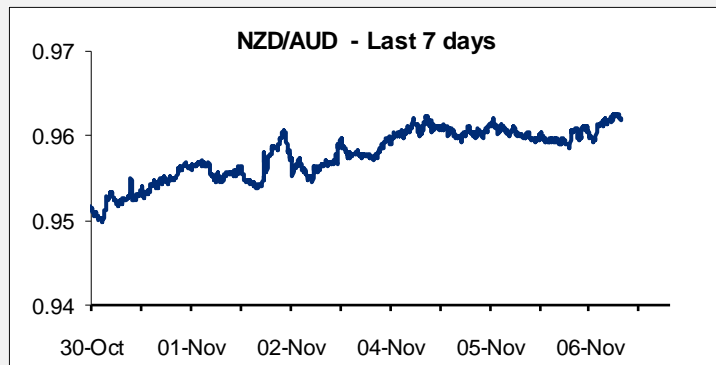
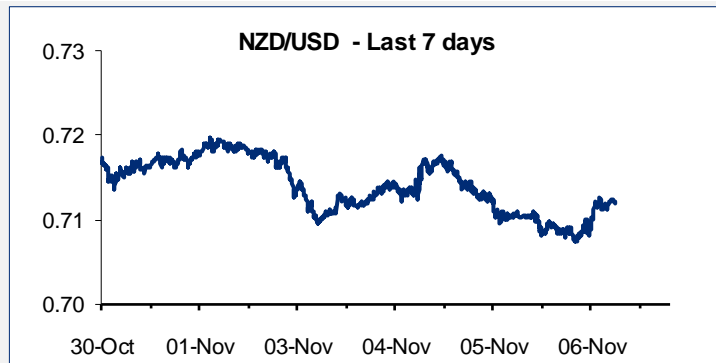
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: New York close

Source: Bloomberg

**NZD exchange rates**

6/11/2021	NY close	Prev. NY close
USD	0.7117	0.7104
GBP	0.5273	0.5262
AUD	0.9618	0.9599
EUR	0.6153	0.6149
JPY	80.71	80.82
CAD	0.8866	0.8849
CHF	0.6496	0.6484
DKK	4.5761	4.5729
FJD	1.4796	1.4803
HKD	5.5390	5.5285
INR	52.99	53.06
NOK	6.0914	6.0781
PKR	120.96	120.76
PHP	35.83	35.96
PGK	2.5033	2.4926
SEK	6.1001	6.1023
SGD	0.9609	0.9598
CNY	4.5540	4.5446
THB	23.71	23.73
TOP	1.5861	1.5943
VUV	78.60	78.22
WST	1.8135	1.8015
XPF	73.60	72.90
ZAR	10.7131	10.8101



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.92	-2.65
3 Months	-11.23	-10.65
6 Months	-29.65	-28.51
9 Months	-56.48	-54.71
1 Year	-88.00	-86.00

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.34	-4.75
3 Months	-19.89	-18.71
6 Months	-44.59	-41.92
9 Months	-77.43	-73.48
1 Year	-112.37	-107.33

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