

8 October 2021



Events Round-Up

GE: Industrial production (m/m%), Aug: -4 vs. -0.5 exp.

US: Initial jobless claims (k), 2-Oct: 326 vs. 348 exp.

Good Morning

Russian President Putin's offer to help fix the European gas crisis and a short-term deal to extend the US debt ceiling have bolstered market sentiment. Equity markets have rebounded strongly, the US 10-year rate has pushed up to its recent high, and commodity currencies have rallied, with the AUD leading the way. Markets now await the all-important nonfarm payrolls report tonight.

Equity markets show solid gains overnight, with the S&P500 up 1.4%, the NASDAQ 1.6% and the EuroStoxx 600 index 1.6% higher. All sectors of the S&P500 are in the green, with Materials leading the way, up more than 2%.

European and UK gas prices have pushed a little lower, albeit in still volatile trading, a day after Putin signalled that Russia would help stabilise the market. UK and Dutch gas futures are off around 5% overnight. While they remain much higher than they were a few months back, the market panic around gas shortages in the region appears to have subsided for now. Oil prices, in contrast, have rebounded back to near recent highs (Brent crude +1.5%) after the US DoE said it wasn't planning to release its strategic oil reserves at this time, although it would continue monitoring the market.

In another positive development, the US debt ceiling limit has been extended until December, putting to bed any concerns around the US government running out of money later this month (and missing payments on Treasury bonds and bills). We will have more debt ceiling-related headlines to look forward to in a few months when this short-term fix expires but, for now, it is one less risk for the market to worry about.

The US 10-year rate has pushed up towards its recent 3½-month high, up 5bps overnight to 1.57%. In Europe, the falls in gas prices have filtered through to lower breakeven inflation expectations, seeing bond yields in the region stable-to-slightly-lower overnight. The German 10-year is down 0.5bps, to -0.18%, while the UK 10-year rate is up just 1bp, to 1.07%, despite more hawkish comments from Bank of England officials.

New BoE Chief Economist Huw Pill told a parliamentary committee that high inflation was set to be longer lasting than originally through and the "balance of risks is currently shifting towards great concerns about the inflation outlook." The market prices an 80% chance of a 15bps rate hike by the Bank of England in December, with a further ~60bps priced in for 2022. Some investors are sceptical the BoE should be considering hiking into a growth-negative supply shock, although the MPC may be keen to re-establish its inflation-fighting credentials at a time when longer-term inflation expectations are their highest levels in more than a decade (the 5y5y forward inflation swap is at a 12-year high).

The minutes to the ECB's last monetary policy meeting also showed divisions re-emerging on inflation, with some members, presumably from the traditionally hawkish Northern European countries, arguing the ECB's baseline inflation projection for 2023 was too low and the risks around inflation were to the upside. That remains the minority view on the committee for now, with Chief Economist Lane saying overnight the region was far from the "red zone" on inflation and the central bank was not seeing any kind of significant wage pressure yet. Wages are a key indicator to watch for any change in the ECB's stance, with President Lagarde having previously said she was keeping a keen eye on wage developments.

Currency moves have seen the safe havens – the USD, JPY, and Swiss Franc – underperform and commodity currencies gain. Movements overall have been reasonably modest, with the BBDXY USD index down by less than 0.1%, as it continues to hover near 12-month highs. The AUD has been the standout performer overnight, up 0.6% to a three-week high of 0.7315, ahead of the planned reopening of the NSW economy on Monday. The NZD is up by around 0.3% overnight, to around 0.6940, while the NZD/AUD cross has slipped to 0.9480, its lowest level in more than two months.

Economic data haven't been market moving but, for the record, US initial jobless claims fell back to near their post-Covid lows while German industrial production was very weak in August, hampered by weakness in auto production and more generalised supply shortages.

Markets await the key nonfarm payrolls report tonight, with consensus centred on a 500k jobs gain for the month and a small decline in the unemployment rate, to 5.1%.

Investors will also be watching wages, which have been consistently stronger than expected over recent months amidst signs of severe labour market shortages, despite the unemployment rate lingering well above pre-pandemic levels. Fed Chair Powell recently said the payrolls report didn't need to be a "knockout" to commence tapering soon, although clearly a very weak number has the potential to cast some doubt around market expectations for a formal tapering announcement next month. The next Fed meeting, on 4th November, takes place ahead of the November payrolls release.

Turning to local developments, 29 new local Covid-19 cases were reported yesterday, with daily cases continuing to linger around the 20 to 40 mark. And last night, a new case, the first in this Delta outbreak, was confirmed in the Northland region. The government belatedly announced that it would trial rapid antigen testing, which has been a constant demand from businesses.

Data from SEEK showed a lockdown-related 8% fall in job ads in Auckland in September, offset by a pickup in other regions. Nationwide job ads remain comfortably above their pre-Covid peak, indicative of a still extremely tight labour market, even with Auckland, and now most of Waikato, in lockdown.

Domestic swap rates were little changed yesterday, with a mild flattening bias evident in the yield curve. The market continues to price a high chance of follow-up 25bps rate hikes from the RBNZ at each of the upcoming two meetings, with 44bps priced in. In the government bond market, very strong demand at yesterday's weekly tender of bonds contributed to a 2bps fall in the 10-year yield, to 2.09%, with larger falls at the 20 and 30-year maturities.

It should be a quiet session ahead with markets likely to tread water ahead of the nonfarm payrolls report tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
CH	Caixin China PMI Services	Sep	49.2	46.7	14:45
US	Change in Nonfarm Payrolls (k)	Sep	500	235	01:30
US	Unemployment Rate (%)	Sep	5.1	5.2	01:30
US	Average Hourly Earnings (m/m%)	Sep	0.4	0.6	01:30
CA	Unemployment Rate (%)	Sep	6.9	7.1	01:30
CA	Hourly Wages (y/y%)	Sep	1.77	1.2	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	0.6940	+0.4	0.6910	0.6944	CHF	0.9279	+0.1	S&P 500	4,423	+1.4	29.4		Oil (Brent)	81.95	+1.1
AUD	0.7319	+0.6	0.7272	0.7324	SEK	8.777	-0.3	Dow	34,904	+1.4	23.3		Oil (WTI)	78.28	+1.1
EUR	1.1563	+0.1	1.1548	1.1572	NOK	8.566	-0.2	Nasdaq	14,737	+1.6	29.7		Gold	1757.9	-0.2
GBP	1.3625	+0.3	1.3571	1.3638	HKD	7.785	-0.0	Stoxx 50	4,098	+2.1	26.7		HRC steel	1880.0	-0.5
JPY	111.58	+0.2	111.23	111.63	CNY	6.445	-0.4	FTSE	7,078	+1.2	19.0		CRB	232.2	-1.5
CAD	1.2543	-0.4			SGD	1.358	-0.1	DAX	15,251	+1.9	18.0		Wheat Chic.	754.3	-0.6
NZD/AUD	0.9482	-0.3			IDR	14,217	-0.3	CAC 40	6,600	+0.7	35.2		Sugar	19.84	+0.4
NZD/EUR	0.6002	+0.3			THB	33.79	-0.1	Nikkei	27,678	+0.5	17.0		Cotton	113.10	+2.0
NZD/GBP	0.5094	+0.1			KRW	1,191	-0.2	Shanghai	3,568	+0.9	10.9		Coffee	197.9	+2.9
NZD/JPY	77.44	+0.5			TWD	27.96	-0.1	ASX 200	7,257	+0.7	18.9		WM powder	3780.0	+0.1
NZD/CAD	0.8705	+0.0			PHP	50.57	-0.6	NZX 50	13,105	-0.5	7.1		Australian Futures		
NZ TWI	74.11	+0.2											3 year bond	99.415	-0.03
													10 year bond	98.38	-0.03
Interest Rates								NZ Government Bonds				NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds			Last		Last		Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	0.25	0.12	0.41	1.58	USD	1.57	0.05	NZGB 5 1/2 04/15/23	0.98	0.00	1 year	1.10	0.01		
AUD	0.10	0.02	0.33	1.71	AUD	1.59	-0.03	NZGB 0 1/2 05/15/26	1.50	0.00	2 year	1.43	0.01		
NZD	0.50	0.65	1.43	2.22	NZD	1.99	-0.00	NZGB 0 1/4 05/15/28	1.74	-0.01	5 year	1.86	0.00		
EUR	0.00	0.06	-0.42	0.20	GER	-0.19	-0.00	NZGB 1 1/2 05/15/31	1.99	-0.01	7 year	2.02	-0.00		
GBP	0.10	0.10	0.78	1.24	GBP	1.08	0.01	NZGB 2 05/15/32	2.09	-0.02	10 year	2.22	-0.01		
JPY	-0.03	-0.08	0.01	0.12	JPY	0.07	-0.01	NZGB 1 3/4 05/15/41	2.57	-0.04	15 year	2.43	-0.01		
CAD	0.25	0.45	0.99	1.97	CAD	1.54	0.04	NZGB 2 3/4 05/15/51	2.76	-0.04					

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

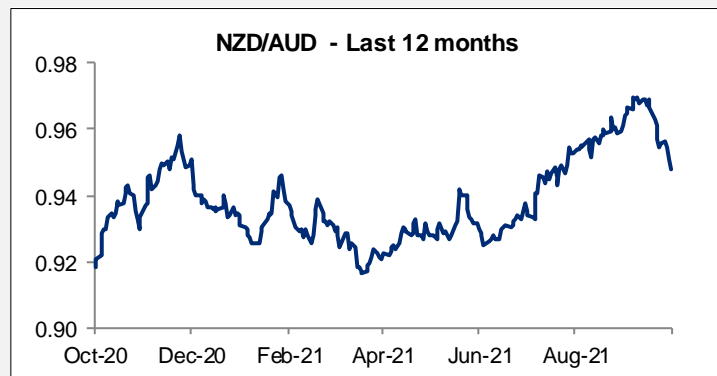
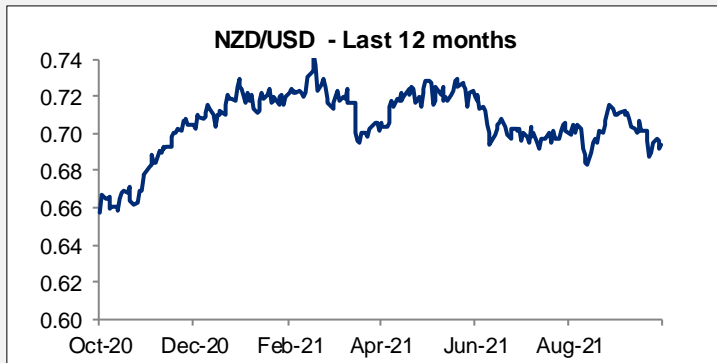
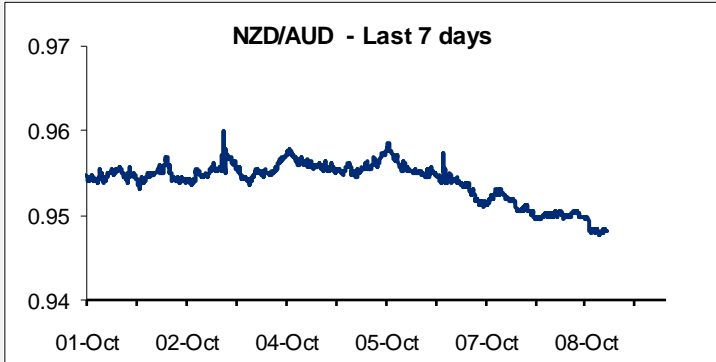
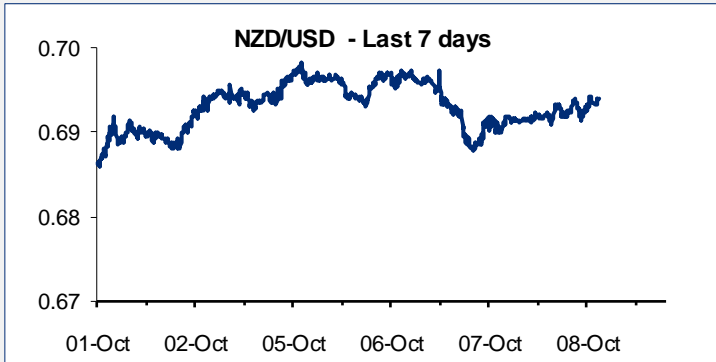
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:55

Source: Bloomberg

NZD exchange rates

8/10/2021	6:56 a.m.	Prev. NY close
USD	0.6940	0.6914
GBP	0.5094	0.5091
AUD	0.9482	0.9508
EUR	0.6002	0.5983
JPY	77.44	77.03
CAD	0.8705	0.8705
CHF	0.6440	0.6412
DKK	4.4658	4.4513
FJD	1.4614	1.4559
HKD	5.4024	5.3835
INR	51.90	51.84
NOK	5.9447	5.9343
PKR	118.50	118.12
PHP	35.10	35.17
PGK	2.4351	2.4260
SEK	6.0911	6.0860
SGD	0.9426	0.9396
CNY	4.4727	4.4739
THB	23.45	23.46
TOP	1.5673	1.5600
VUV	77.42	76.96
WST	1.7795	1.7838
XPF	71.23	70.97
ZAR	10.3653	10.3537



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.30	-1.98
3 Months	-7.29	-6.79
6 Months	-18.75	-17.75
9 Months	-36.07	-34.57
1 Year	-56.45	-54.46

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.27	-3.62
3 Months	-14.74	-13.66
6 Months	-32.73	-30.57
9 Months	-57.91	-54.55
1 Year	-87.13	-82.44

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