

10 December 2021



Events Round-Up

NZ: Manufacturing volume (q/q), Q3: -6.4 vs. -0.1 prev.

CH: CPI (y/y%), Nov: 2.3 vs. 2.5 exp.

CH: PPI (y/y%), Nov: 12.9 vs. 12.1 exp.

US: Initial jobless claims (k), 4-Dec: 184 vs. 220 exp.

Good Morning

It's been reasonably quiet overnight with equity markets and bond yields pulling back slightly and the NZD dipping back below 0.68. US CPI is focus in the session ahead. Yesterday, we revised up our NZ Q3 GDP forecast and now look for GDP to fall "only" 4% in Q3.

There hasn't been much news overnight to drive markets, as investors await more scientific findings on Omicron and major central bank meetings, including the Fed, next week. The S&P500 is down 0.2% overnight, consolidating after its strong run higher earlier in the week. The NASDAQ is off 0.8% while the EuroStoxx 600 was marginally lower. In the bond market, the US 10-year rate is 4bps lower, to just below 1.50%, with the yield curve resuming its flattening trend.

In economic data, US weekly jobless claims fell to their lowest level since 1969, at just 184k, although issues with seasonal adjustment (related to the timing of Thanksgiving) look to have been at play. Looking through the week-to-week noise, the trend in jobless claims remains firmly lower, indicative of a strengthening (and very tight) US labour market. Market reaction to the data was limited, with investors firmly focused on the US CPI release tonight. Headline US inflation is expected to hit an almost 40-year high of 6.8% y/y while core inflation is expected to reach 4.9%, which would be its highest level since the early 1990s. In China, PPI inflation was much stronger than expected, albeit slightly lower than the previous month, at 12.9%, while consumer price inflation remains much more subdued, at just 2.3%.

China has taken steps to cool the appreciation in the CNY, which hit a 3½-year high against the USD earlier in the week (the official trade-weighted CNY had also reached its highest level in over six years). The CNY is 0.5% weaker overnight, its biggest daily fall since June, after the PBOC announced a hike in the foreign currency reserve requirement ratio, from 7% to 9%. Earlier, the PBOC had signalled its discomfort with the currency's appreciation by

setting the CNY fix at a weaker than expected level. The PBOC last hiked the foreign currency reserve requirement in June, after which the CNY weakened around 2.5% over the following two months. The CNY has been trending higher amidst large foreign inflows into the Chinese government bond market, given its relatively high interest rates and entry into major global bond indices, with China's large trade surplus another supportive driver of the currency.

Movements in the major currencies have been reasonably contained (except for a 1.3% fall in the Norwegian krone). The modest pullback in equities has been mirrored by small falls in the NZD and AUD, both currencies down by around 0.3% overnight. The NZD is hovering just below the 0.68 cent mark while the NZD/AUD cross is just below 0.95, its lowest level in two months.

Ahead of the ECB meeting next week, Reuters reported that the central bank was considering boosting its existing Asset Purchase Programme (APP) when its (larger) pandemic bond buying programme rolls off in March. According to the report, options include setting a bond buying target for the APP to last until the end of 2022 or temporarily increasing the monthly APP bond buying amount from €20b, but with guidance that it will likely be tapered going forward if the economy performs as expected. The ECB is balancing how to wean the market off its huge bond buying without causing a shock to peripheral bond markets while keeping its options open for monetary policy beyond 2022 in an environment of heightened inflation uncertainty. Separately, Bloomberg reported that the ECB was considering tweaks to its reinvestment policy for bonds bought under the pandemic bond buying scheme, including applying more flexibility across countries (i.e. skewing reinvestments towards more vulnerable sovereigns like Italy) and extending the timeframe over which matured bonds are reinvested. European 10-year bond rates were down 3-4bps overnight, similar-sized movements to the US 10-year rate, while the EUR was 0.4% weaker.

Turning to local developments, yesterday we revised up our Q3 GDP forecast after the release of more (stronger than expected) partial indicators. We now look for GDP to fall "only" 4% in Q3, when the data are released next week, compared to our previous estimate of -7%. The RBNZ had also forecast a 7% fall in Q3 GDP, so something in the region of -4% would represent a meaningful upside surprise and helps explain the ongoing capacity constraints

in the economy. That said, it's likely that growth doesn't bounce back quite as strongly in Q4 and Q1 as we had previously been thinking. Meanwhile, job ads on SEEK rebounded strongly in November, by 5.1% on a nationwide basis, putting them back within vicinity of their recent all-time highs, symptomatic of the extremely tight labour market.

Yesterday saw curve steepening in New Zealand, with a 1bp fall in the 2-year swap rate contrasting with a 6bps lift in the 10-year rate. Government bond yields were up by even more, by as much as 10bps on the 20-year bond, after yesterday's tender saw relatively modest demand, especially for longer maturities. Despite yesterday's corrective move, the New Zealand yield curve remains flat, with the difference between 5 and 10-year swap rates just 5bps, near its lowest level since the GFC.

The focus of the session ahead is US CPI, the last major data release before the Fed's policy meeting next week, at

which is it widely expected to announce an acceleration of its tapering pace. Locally, the Manufacturing PMI is released as well as monthly electronic card spending data.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Nov		54.3	10:30
NZ	Card Spending Total (m/m%)	Nov		9.5	10:45
UK	GDP (3m/3m%)	Oct	1	2.9	20:00
US	CPI (m/m%)	Nov	0.7	0.9	02:30
US	CPI Ex Food and Energy (m/m%)	Nov	0.5	0.6	02:30
US	CPI (y/y%)	Nov	6.8	6.2	02:30
US	CPI Ex Food and Energy (y/y%)	Nov	4.9	4.6	02:30
US	Uni. Mich. Consumer Sentiment	Dec P	68	67.4	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	0.6788	-0.3	0.6781	0.6823	CHF	0.9249	+0.5	S&P 500	4,688	-0.3	27.6	Oil (Brent)	74.94	-1.2
AUD	0.7150	-0.3	0.7136	0.7187	SEK	9.069	+0.3	Dow	35,777	+0.1	19.0	Oil (WTI)	71.52	-1.2
EUR	1.1292	-0.5	1.1279	1.1334	NOK	8.987	+1.2	Nasdaq	15,672	-0.7	27.0	Gold	1775.8	-0.4
GBP	1.3214	+0.1	1.3171	1.3216	HKD	7.796	-0.0	Stoxx 50	4,208	-0.6	19.2	HRC steel	1610.0	-0.4
JPY	113.53	-0.1	113.27	113.67	CNY	6.378	+0.5	FTSE	7,321	-0.2	11.5	CRB	227.1	+0.6
CAD	1.2696	+0.3			SGD	1.365	+0.2	DAX	15,639	-0.3	17.2	Wheat Chic.	781.5	-1.7
NZD/AUD	0.9494	-0.0			IDR	14,367	+0.1	CAC 40	7,008	+0.2	26.3	Sugar	19.70	-0.6
NZD/EUR	0.6011	+0.1			THB	33.56	+0.3	Nikkei	28,725	-0.5	7.4	Cotton	106.89	+0.1
NZD/GBP	0.5137	-0.4			KRW	1,174	-0.1	Shanghai	3,673	+1.0	8.9	Coffee	240.3	-1.5
NZD/JPY	77.06	-0.4			TWD	27.70	-0.2	ASX 200	7,384	-0.3	10.5	WM powder	4190	-0.8
NZD/CAD	0.8618	+0.0			PHP	50.29	-0.1	NZX 50	12,772	-0.7	-0.7	Australian Futures		
NZ TWI	73.02	-0.1										3 year bond	98.908	0.04
												10 year bond	98.35	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	0.20	0.88	1.55	USD	1.48	-0.04	NZGB 5 1/2 04/15/23	1.54	0.00	1 year	1.69	-0.01	
AUD	0.10	0.06	0.93	1.94	AUD	1.68	0.06	NZGB 0 1/2 05/15/26	2.33	0.04	2 year	2.26	-0.01	
NZD	0.75	0.89	2.25	2.57	NZD	2.49	0.06	NZGB 0 1/4 05/15/28	2.40	0.06	5 year	2.56	0.02	
EUR	0.00	0.06	-0.36	0.11	GER	-0.35	-0.04	NZGB 1 1/2 05/15/31	2.44	0.06	7 year	2.58	0.04	
GBP	0.10	0.09	0.98	1.01	GBP	0.76	-0.02	NZGB 2 05/15/32	2.49	0.06	10 year	2.61	0.06	
JPY	-0.03	-0.07	0.00	0.10	JPY	0.05	-0.00	NZGB 1 3/4 05/15/41	2.86	0.09	15 year	2.63	0.06	
CAD	0.25	0.50	1.53	2.02	CAD	1.51	-0.08	NZGB 2 3/4 05/15/51	2.92	0.09				

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

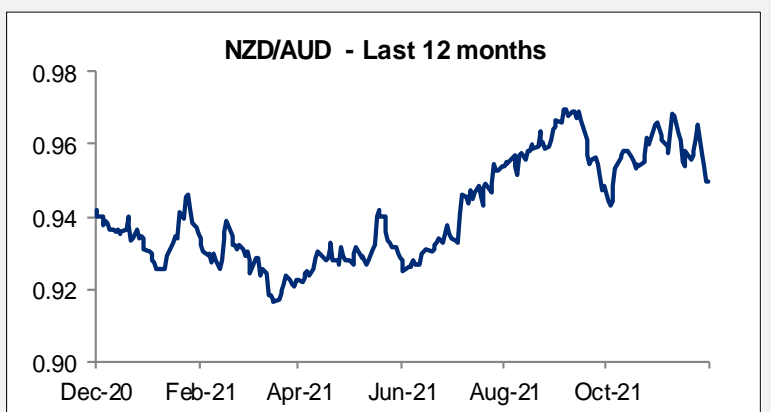
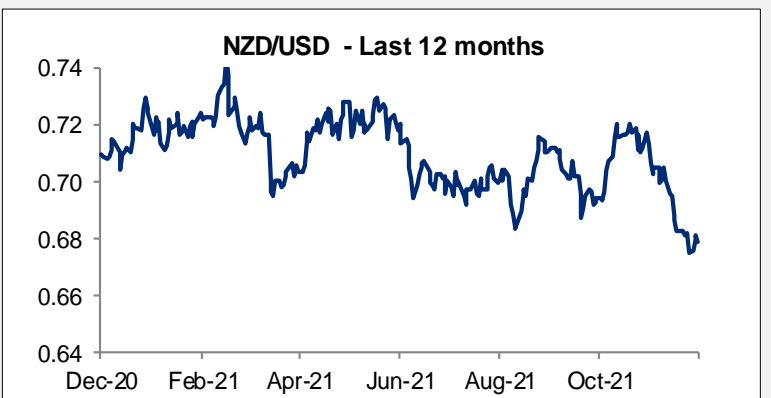
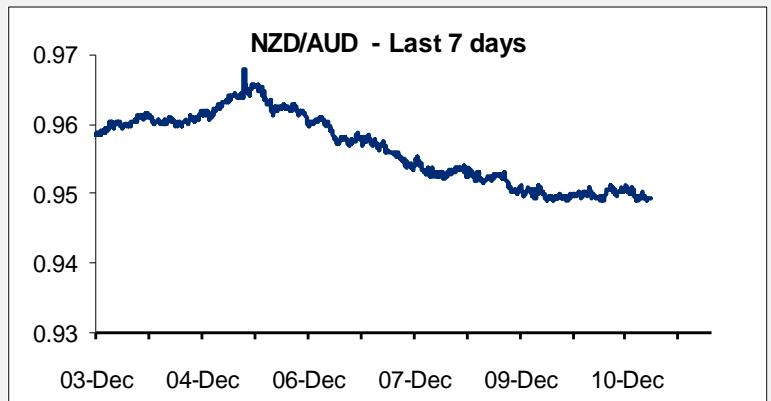
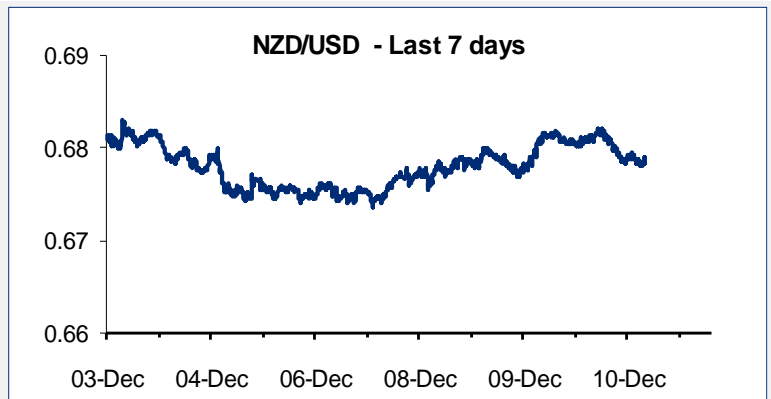
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:52

Source: Bloomberg

NZD exchange rates

10/12/2021	6:52 a.m.	Prev. NY close
USD	0.6788	0.6809
GBP	0.5137	0.5157
AUD	0.9494	0.9494
EUR	0.6011	0.6003
JPY	77.06	77.40
CAD	0.8618	0.8616
CHF	0.6278	0.6268
DKK	4.4700	4.4637
FJD	1.4400	1.4475
HKD	5.2918	5.3092
INR	51.26	51.38
NOK	6.1001	6.0467
PKR	120.23	120.10
PHP	34.13	34.30
PGK	2.3826	2.3908
SEK	6.1560	6.1556
SGD	0.9265	0.9272
CNY	4.3291	4.3198
THB	22.72	22.80
TOP	1.5330	1.5398
VUV	76.70	77.09
WST	1.7599	1.7693
XPF	71.86	72.09
ZAR	10.8381	10.7001



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.50	-2.22
3 Months	-9.86	-9.36
6 Months	-27.56	-26.51
9 Months	-50.77	-48.31
1 Year	-76.32	-74.32

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.55	-6.66
3 Months	-18.94	-17.46
6 Months	-45.96	-43.10
9 Months	-77.52	-72.74
1 Year	-108.67	-103.84

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