

11 November 2021



## Events Round-Up

AU: Westpac consumer conf, Nov: 105.3 vs. 104.6 prev.

NZ: ANZ own-activity indicator, Nov: 15.6 vs. 21.7 prev.

CH: CPI (y/y%), Oct: 1.5 vs. 1.4 exp.

CH: PPI (y/y%), Oct: 13.5 vs. 12.3 exp.

US: Initial jobless claims (k), 6-Nov: 267 vs. 260 exp.

US: CPI (y/y%), Oct: 6.2 vs. 5.9 exp.

US: CPI ex food and energy (y/y%), Oct: 4.6 vs. 4.3 exp.

## Good Morning

Team transitory suffered a blow after another shockingly high US CPI print that has reverberated across markets, seeing much higher US rates across the curve and spilling over into Australian bond futures. The data supported the USD, dragging the NZD below 0.71, while the AUD is finding support around 0.7350.

Inflation has been a focus for the market, continuing to challenge the view of some that higher inflation is transitory. Yesterday, data showed China PPI inflation surging to a 26-year high of 13.5% y/y in October, reflecting higher commodity prices and a lifting of price caps for power generators. As a key global exporter, higher China PPI inflation can be expected to spillover into other markets.

In overnight news, the US CPI print was another shocker, rising 0.9% m/m in October to take the annual increase up to 6.2%, while the CPI ex food and energy index rose 0.6% m/m, to be up 4.6% y/y, both measures at their highest levels in 30-odd years. The outturn wasn't driven by just a few one-off items, the surging inflation picture is becoming broader based, evidenced by fresh highs for the Cleveland Fed median (3.1%), trimmed mean (4.1%) and Atlanta Fed sticky CPI (3.2%) measures, averaging 3.5%, about a 30-year high as well.

NZ inflation has been, and continues to, head down the same path with the risk of an imminent 6% headline CPI handle and some core inflation measures above 4%, but the difference is that the RBNZ is doing something about it, ending QE some time ago and with clear guidance that rates are heading higher. That has already fed into wholesale rates and mortgage rates, with the 2-year fixed rate mortgage up some 150bps over the past few months and doing the work to rein in domestic demand.

The difference in the US is that the Fed has been too-focused on the shortfall of employment from pre-pandemic levels and, on its guidance, will still be buying bonds to suppress interest rates until the middle of next year, with rate hikes not even purportedly being discussed because they are such a "ways off". The inflation picture suggests that this policy guidance looks way out of step with reality, and gives succour to the hawks that the policy is no longer fit for purpose.

San Francisco Fed President Daly was the first FOMC member to be interviewed post the CPI, in a prescheduled slot on Bloomberg TV, and didn't seem to learn anything from the release, running the now-surely expired mantra that inflation was "transitory" and noted the COVID situation and "missing jobs". She added that it was premature to ask if the Fed should quicken the pace of taper or change the calculation about raising rates. Sigh.

The market reaction to the data has been understandable, with the Fed Funds curve back to pricing in two hikes from late next year and US Treasury yields blasting higher, around 7-11bps, led by the belly of the curve, the 5-year rate. The 10-year rate is currently up 10bps to 1.54%. The 10-year break-even inflation yields is up 6bps and touched a fresh cycle high of 2.72%.

Higher US rates have spilled over into other markets, with BoE rate pricing notably bouncing back and leading to an 11bps increase in the UK 2-year rate. The UK 10-year rate is up 10bps, while European 10-year rates are up in the order of 5-10bps as well.

The RBA is the other obvious central bank with its head in the sand by dismissing the obvious inflationary backdrop, with the market remaining on tenterhooks for some eventual central bank capitulation. The 3-year bond future sold off 13bps after the US CPI release while the 10-year future sold off 10bps.

In currency markets, the USD shows a broadly-based gain, with the BBDXY index up 0.6% for the day, approaching its year-to-date high set late-September, while the DXY index has just nudged above its previous high this year. The higher global rates backdrop has done most damage to the yen, with USD/JPY up 0.9% overnight to 113.90. EUR and GBP are down in the order of 0.7%, the former on the verge of breaking below 1.15. The commodity currencies have been least affected, with the AUD and CAD only

slightly lower overnight, while the NZD has weakened 0.4% overnight to 0.7080, extending the modest loss seen during local trading hours.

Oil prices are weaker in the order of 2%, driven by the stronger USD and a US government report showing a surprise increase in US crude inventories to their highest level since August. The White House has yet to announce what it intends to do in response to higher energy prices.

The US equity market has taken the inflation report largely in its stride, with the S&P500 showing a modest 0.4% fall, while the higher rates backdrop has had a larger impact on tech stocks, with the Nasdaq index down 0.7%.

The bond market selloff overnight will feed into higher domestic rates on the open. Yesterday, the swap market showed a notable flattening bias, with the 10-year rate down 4bps to 2.65%, while the 2-year rate rose by 1bp to 2.21%. NZGBs underperformed, with supply weighing on the market, with a weak LGFA tender for 2037s and an NZGB tender today. The NZ 10-year NZGB fell by just 1bp to 2.52%.

The ANZ business outlook survey showed a softening in the own-activity indicator in the preliminary November survey,

understandable with Auckland still in lockdown. Year-ahead inflation expectations surged to a fresh high for the cycle of 4.3%, understandable considering that the headline CPI is on the verge of printing 6%.

REINZ housing market data released this morning will be interesting, to see if higher mortgage rates are having an early impact. Australian employment data will be distorted by the impacts of lockdowns, with October being the start of the recovery as NSW eased its way out of restrictions. UK GDP data tonight will show a further recovery, but modest in the context of the still-considerable shortfall in activity from pre-COVID levels.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	REINZ house sales (y/y%)	Oct		-37.9	09:00
NZ	Food prices (m/m%)	Oct		0.5	10:45
AU	Employment change (k)	Oct	50	-138	13:30
AU	Unemployment rate (%)	Oct	4.8	4.6	13:30
UK	GDP (q/q%)	Q3	1.5	5.5	20:00
UK	Industrial production (m/m%)	Sep	0.2	0.8	20:00

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	0.7078	-0.7	0.7076	0.7124	CHF	0.9174	+0.7	S&P 500	4,667	-0.4	31.6	Oil (Brent)	82.97	-2.1
AUD	0.7349	-0.4	0.7341	0.7393	SEK	8.682	+1.3	Dow	36,205	-0.3	23.1	Oil (WTI)	81.69	-2.9
EUR	1.1507	-0.8	1.1506	1.1582	NOK	8.626	+1.5	Nasdaq	15,762	-0.9	36.4	Gold	1851.7	+1.1
GBP	1.3451	-0.8	1.3451	1.3564	HKD	7.790	-0.0	Stoxx 50	4,349	+0.1	26.3	HRC steel	1810.0	+0.3
JPY	113.98	+1.0	112.86	113.98	CNY	6.389	-0.1	FTSE	7,340	+0.9	16.6	CRB	236.6	+0.4
CAD	1.2464	+0.2			SGD	1.352	+0.4	DAX	16,068	+0.2	22.1	Wheat Chic.	811.3	+2.6
NZD/AUD	0.9631	-0.3			IDR	14,254	+0.0	CAC 40	7,045	+0.4	30.0	Sugar	19.58	-1.5
NZD/EUR	0.6151	+0.0			THB	32.80	+0.1	Nikkei	29,107	-0.6	14.8	Cotton	119.23	-0.1
NZD/GBP	0.5262	+0.1			KRW	1,181	+0.3	Shanghai	3,492	-0.4	4.5	Coffee	207.2	-0.6
NZD/JPY	80.68	+0.2			TWD	27.75	-0.0	ASX 200	7,424	-0.1	15.1	WM powder	4150.0	+1.2
NZD/CAD	0.8822	-0.5			PHP	50.08	-0.1	NZX 50	13,022	-0.5	2.8	<b>Australian Futures</b>		
NZ TWI	75.43	-0.4										3 year bond	98.81	-0.14
												10 year bond	98.15	-0.08
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	0.25	0.15	0.73	1.60	USD	1.57	0.13	NZGB 5 1/2 04/15/23	1.59	0.00		1 year	1.60	0.01
AUD	0.10	0.04	0.95	2.09	AUD	1.73	-0.05	NZGB 0 1/2 05/15/26	2.25	-0.02		2 year	2.21	0.01
NZD	0.50	0.83	2.22	2.69	NZD	2.57	-0.01	NZGB 0 1/4 05/15/28	2.41	-0.01		5 year	2.60	-0.02
EUR	0.00	0.06	-0.31	0.18	GER	-0.25	0.05	NZGB 1 1/2 05/15/31	2.52	-0.01		7 year	2.62	-0.03
GBP	0.10	0.11	1.11	1.18	GBP	0.93	0.10	NZGB 2 05/15/32	2.57	-0.01		10 year	2.65	-0.04
JPY	-0.06	-0.09	0.00	0.11	JPY	0.06	-0.00	NZGB 1 3/4 05/15/41	2.83	-0.01		15 year	2.73	-0.06
CAD	0.25	0.49	1.51	2.13	CAD	1.69	0.09	NZGB 2 3/4 05/15/51	2.90	-0.01				

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

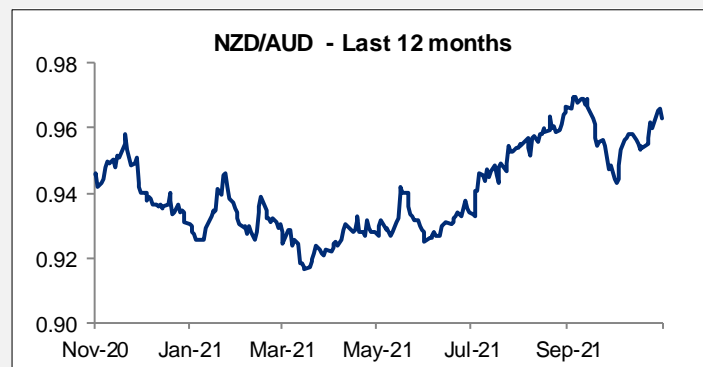
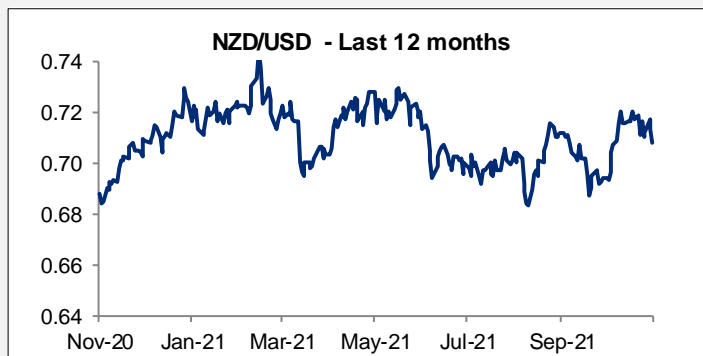
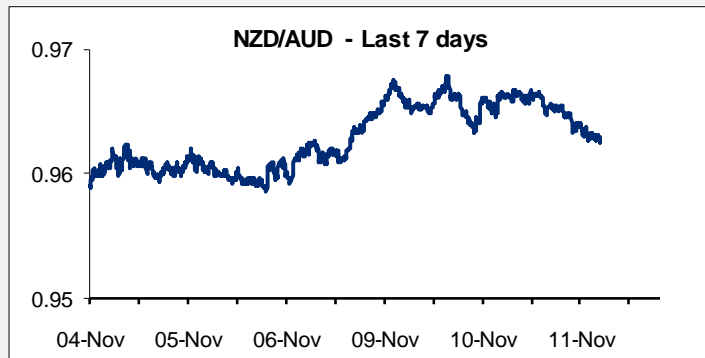
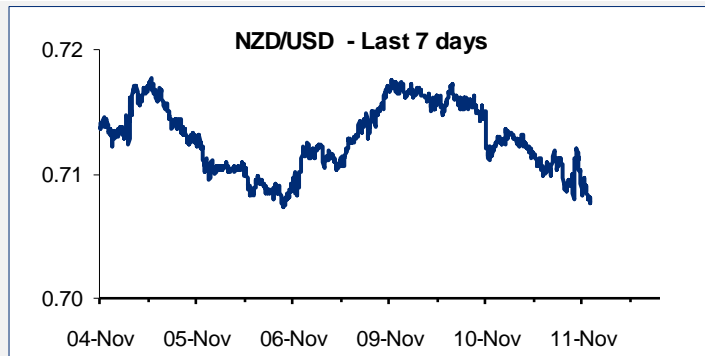
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:04

Source: Bloomberg

**NZD exchange rates**

11/11/2021 7:05 am		Prev. NY close
USD	0.7078	0.7129
GBP	0.5262	0.5259
AUD	0.9631	0.9663
EUR	0.6151	0.6149
JPY	80.68	80.47
CAD	0.8822	0.8867
CHF	0.6493	0.6496
DKK	4.5744	4.5735
FJD	1.4740	1.4840
HKD	5.5139	5.5539
INR	52.65	52.78
NOK	6.1054	6.0663
PKR	120.30	121.18
PHP	35.44	35.72
PGK	2.4844	2.5067
SEK	6.1453	6.1130
SGD	0.9572	0.9606
CNY	4.5220	4.5574
THB	23.19	23.38
TOP	1.5704	1.5888
VUV	78.33	78.58
WST	1.7926	1.8010
XPF	72.78	73.17
ZAR	10.9050	10.7137



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.02	-2.68
3 Months	-11.13	-10.62
6 Months	-29.34	-28.34
9 Months	-55.24	-53.49
1 Year	-85.98	-83.97

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.37	-4.65
3 Months	-20.43	-19.23
6 Months	-45.57	-43.28
9 Months	-78.42	-74.58
1 Year	-112.16	-107.40

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