

11 November 2022



Events Round-Up

CH: Aggregate financing (CNYb), Oct: 908 vs 1600 exp.

CH: New yuan loans (CNYb), Oct: 615 vs 800

US: CPI (m/m%), Oct: 0.4 vs. 0.6 exp.

US: CPI ex food, energy (m/m%), Oct: 0.3 vs. 0.5 exp.

US: CPI (y/y%), Oct: 7.7 vs. 7.9 exp.

US: CPI ex food, energy (y/y%), Oct: 6.3 vs. 6.5 exp.

US: Initial jobless claims (k), 5-Nov: 225 vs. 220 exp.

Good Morning

A much weaker US CPI print drove a massive market reaction with US equities surging, a significant fall in rates as the market pares back Fed rate hike expectations, and a much weaker USD. Fed officials welcomed the inflation news but emphasised the need for further hikes, even if agreeing that stepping down hikes was appropriate. Some stop-losses in currency markets have been evident, with the largest gains for the most shorted currencies, with AUD, JPY and GBP outperforming. The NZD blasted up through 0.60 and sits just below that level as we go to print. NZ rates showed an outsized move to the downside yesterday on no news and will likely fall significantly again today.

The key figure from the US CPI release was a 0.3% lift in the core measure (CPI ex food and energy), or 0.26% on unrounded figures, well below the 0.5% consensus, a rare downward surprise and a large one at that. This dragged the annual core increase down to 6.3% y/y. Headline inflation was 0.4% m/m and 7.7% y/y. Alternative core measures also showed weaker inflation pressure, with the Cleveland Fed's trimmed mean showing a monthly annualised rate of 4.5%, the weakest in over eighteen months.

Importantly, the breakdown showed not only lower goods prices – further unwinding of some COVID-affected components like used cars down 2.4% and the strong USD driving down some components – but services inflation was also weaker. Rents of 0.6% m/m was the smallest lift since May, showing that the strong evidence in falling market rents is finally beginning to feed in, while health insurance plunged 4%. Pantheon Macroeconomics notes the quirks of this series, where the annual proxy used has flipped from strong positive contributions over the past year to strong negatives over the coming year. Combined

with weaker rents, a large component of the index, weaker measured core inflation looks sustainable.

Leading indicators of inflation have been pointing down for some time and that this is finally being measured by the official CPI data stoked a significant market reaction. US equities have surged, with S&P500 up some 4% and the Nasdaq up over 5%. Short covering explains some of the outsized move, but with the strong signal that inflation is on its way down, many investors will be taking the view that the nadir in the market this cycle might now be behind us.

The reaction in the rates market has been equally monumental. US 2, 5 and 10-year Treasuries are down in the order of 23-29bps, the largest fall in the belly of the curve, and with the market paring back rate hike expectations. The market is increasingly confident that the Fed will step down to a 50bps rate hike next month. Another weak CPI print ahead and weaker employment report ahead of that meeting could even bring 25bps in play. The market is now pricing the peak Fed Funds rate at 4.88% for Q2 next year, down from 5.04% priced yesterday.

Overnight, a number Fed officials have noted the welcome news on inflation and backed a step down in rate hikes, while stressing that policy needs to tighten further. Dallas Fed President Logan said “This morning’s CPI data were a welcome relief, but there is still a long way to go”. San Francisco’s Daly said that “stepping down is an appropriate thing to think about” but “pausing is not the discussion, the discussion is stepping down”. Philadelphia’s Harker expected a slowdown in the pace of rate hikes, “but I want to be clear: a rate hike of 50bps would still be significant”. Cleveland’s Mester welcomed the inflation news but said she remains more concerned the central bank could fail to sufficiently tighten monetary policy.

The USD is much weaker across the board, reflecting a combination of stronger risk appetite and lower US rates, with the DXY index down 1.7% for the day, and down as much as 2.5% intraday at its low. With the index now comfortably over 5% down from its late-September peak, it adds to the case that peak-dollar has passed for the cycle. The question now becomes the speed and extent of the downturn, given long-dollar has been one of the most favoured positions for some time. A weaker USD would provide a much needed boost to the global economy, easing financial conditions for most emerging markets.

The scale of currency moves highlight where the short positions in the majors have been concentrated. JPY has been the biggest mover, with lower US-JP rate spreads supporting the yen and clearing out some short positioning. USD/JPY is down over 3% to below 142. GBP has also been one of the larger movers, up nearly 3% to 1.1660 – a much greater move than the 1½% gain in EUR to 1.0150.

The NZD is up nearly 2%, piercing the 0.60 mark and currently sitting just below that level. We have been projecting a sustained break of 0.60 from early next year, but the weaker CPI data might be bringing forward that move. The AUD reaction has been even stronger given the greater clean out of short positioning, surging towards 0.66 and seeing NZD/AUD modestly weaker at 0.9120.

In other economic news, China credit data were very weak, with aggregate financing of CNY907b well below consensus and the lowest since 2019. Bank loans rose by the smallest amount in almost five years. Capital Economics noted the extremely unusual outright fall in lending to households, underlining the difficulty policymakers are facing stimulating growth while activity is suppressed by the zero-COVID policy.

On that note, the new Politburo Standing Committee chaired by President Xi and made up of his mates, reinforced the need to stick with the zero-COVID policy while urging officials to be more targeted with their restrictions so as to avoid damage to the economy. Guangzhou looks like a test case for this policy, not

heading into a Shanghai-style lockdown after the recent surge in cases, but a more targeted lockdown of only 3 of its 11 districts.

Yesterday, the NZ bond market showed an outsized move to the downside for yields, a sign that the market has been caught short. NZGBs fell 16bps across the curve and there was very strong bidding in the tender, with all three lines going well through mids. Swap rates fell 11-12bps. Since the NZ close, the Australian 10-year bond future is down 17bps in yield terms, setting the scene for another chunky fall in NZ rates today.

On the calendar, domestically the manufacturing PMI and food prices will be released for October. UK Q3 GDP is expected to be negative, likely making it the first major developed country to enter economic recession, the first of many for the year ahead. US consumer sentiment will also be released.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	BNZ manufacturing PMI	Oct		52.0	10:30
NZ	Food prices (m/m%)	Oct		0.4	10:45
UK	GDP (q/q%)	Q3	-0.5	0.2	20:00
US	U. of Mich. cons. sentiment	Nov	59.5	59.9	04:00
US	U. of Mich. 5-10 yr inflation exp.	Nov	2.9	2.9	04:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Other FX				Major Indices			Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day				
NZD	0.5989	+1.8	0.5841	0.6017	CHF	0.9688	-1.6		S&P 500	3,903	+4.2	-16.0	Oil (Brent)	93.58	+1.0
AUD	0.6566	+2.1	0.6387	0.6598	SEK	10.663	-2.0		Dow	33,365	+2.6	-7.5	Oil (WTI)	86.51	+0.8
EUR	1.0148	+1.3	0.9936	1.0185	NOK	10.151	-2.3		Nasdaq	10,957	+5.8	-29.9	Gold	1751.3	+2.2
GBP	1.1648	+2.5	1.1363	1.1686	HKD	7.846	-0.0		Stoxx 50	3,847	+3.2	-11.5	HRC steel	658.0	-0.9
JPY	142.03	-3.0	141.47	146.59	CNY	7.187	-0.8		FTSE	7,375	+1.1	0.5	CRB	279.8	-1.5
CAD	1.3388	-1.0			SGD	1.387	-1.1		DAX	14,146	+3.5	-12.0	Wheat Chic.	822.8	-0.6
NZD/AUD	0.9121	-0.3			IDR	15,694	+0.2		CAC 40	6,557	+2.0	-6.9	Sugar	19.41	+0.1
NZD/EUR	0.5902	+0.4			THB	36.27	-1.7		Nikkei	27,446	-1.0	-6.3	Cotton	86.40	-0.1
NZD/GBP	0.5142	-0.7			KRW	1,378	+1.0		Shanghai	3,036	-0.4	-14.1	Coffee	166.6	+2.6
NZD/JPY	85.06	-1.3			TWD	31.82	-0.0		ASX 200	6,964	-0.5	-5.7	WM powder	3300	+0.6
NZD/CAD	0.8018	+0.7			PHP	58.19	+0.3		NZX 50	11,092	-0.5	-14.9	Australian Futures		
NZ TWI	70.71	+0.7											3 year bond	96.82	0.22
													10 year bond	96.38	0.23
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			
USD	4.00	4.63	4.70	3.86	USD	3.84	-0.25	NZGB 0 1/2 05/15/24	4.49	-0.15	1 year	5.14	-0.09		
AUD	2.85	3.05	3.73	4.32	AUD	3.72	-0.15	NZGB 4 1/2 04/15/27	4.41	-0.16	2 year	5.16	-0.11		
NZD	3.50	4.19	5.10	4.67	NZD	4.39	-0.16	NZGB 3 04/20/29	4.37	-0.16	5 year	4.82	-0.12		
EUR	1.50	1.80	2.85	2.81	GER	2.01	-0.16	NZGB 1 1/2 05/15/31	4.38	-0.16	7 year	4.75	-0.12		
GBP	3.00	3.47	4.25	3.48	GBP	3.29	-0.17	NZGB 2 05/15/32	4.39	-0.16	10 year	4.73	-0.12		
JPY	-0.07	-0.03	0.16	0.63	JPY	0.25	0.00	NZGB 1 3/4 05/15/41	4.74	-0.16	15 year	4.76	-0.11		
CAD	3.75	4.64	4.28	3.63	CAD	3.14	-0.25	NZGB 2 3/4 05/15/51	4.70	-0.16					

* 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 07:05

Source: Bloomberg

NZD exchange rates

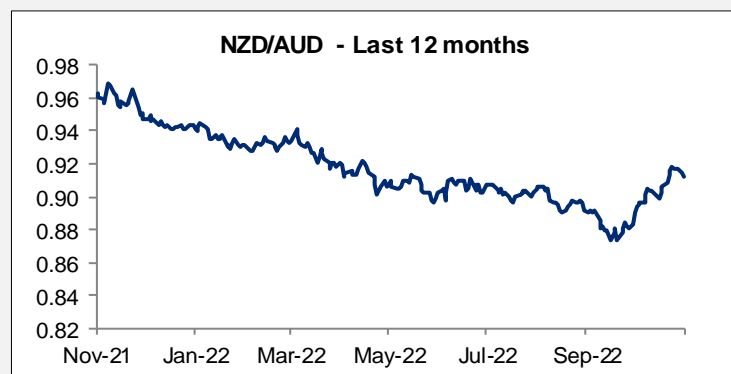
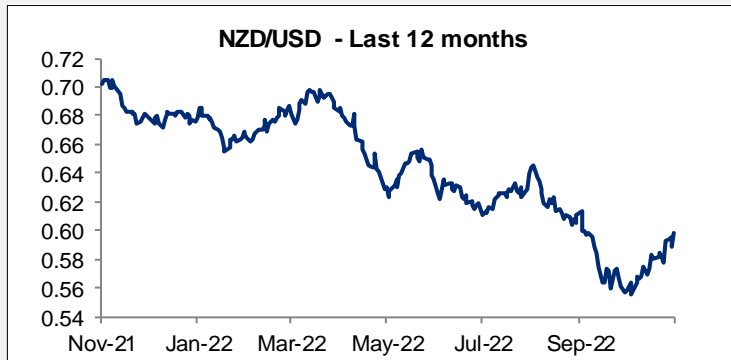
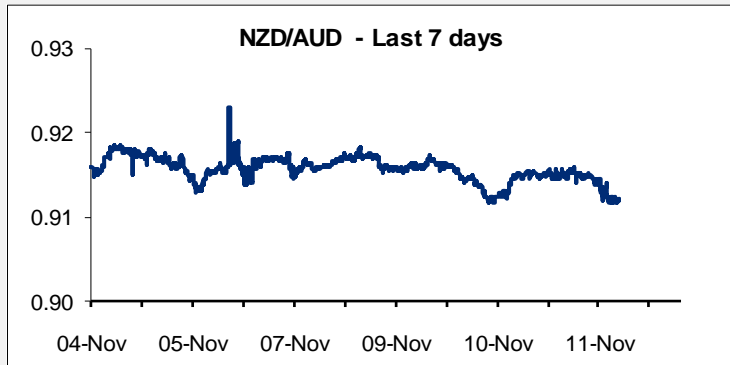
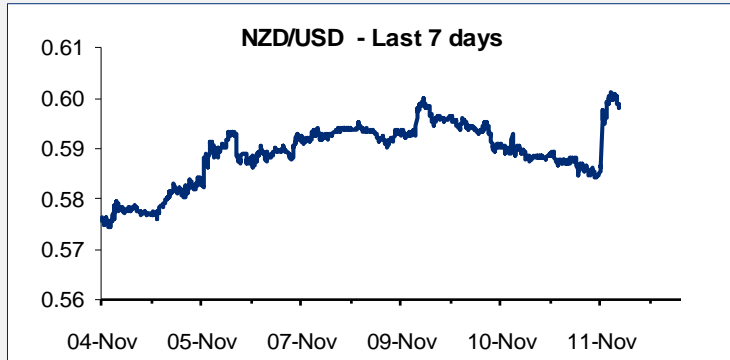
11/11/2022 7:05 am		Prev. NY close
USD	0.5989	0.5883
GBP	0.5142	0.5180
AUD	0.9121	0.9148
EUR	0.5902	0.5877
JPY	85.06	86.17
CAD	0.8018	0.7957
CHF	0.5802	0.5792
DKK	4.3904	4.3712
FJD	1.3624	1.3481
HKD	4.6991	4.6178
INR	48.99	47.90
NOK	6.0792	6.1158
PKR	132.76	130.41
PHP	34.85	34.13
PGK	2.1088	2.0715
SEK	6.3862	6.4048
SGD	0.8304	0.8253
CNY	4.3040	4.2599
THB	22.09	21.67
TOP	1.4243	1.4017
VUV	73.26	71.38
WST	1.6736	1.6395
XPF	71.38	70.24
ZAR	10.4517	10.4678

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.92	2.38
3 Months	9.52	10.17
6 Months	11.86	13.79
9 Months	9.96	12.46
1 Year	4.40	7.01

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.16	-4.15
3 Months	-19.77	-18.18
6 Months	-48.11	-43.59
9 Months	-77.56	-71.06
1 Year	-106.43	-96.26



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