

11 October 2021



Events Round-Up

CH: Caixin Services PMI, Sep: 53.4 vs. 49.2 exp.
 US: Change in nonfarm payrolls (k), Sep: 194 vs. 500 exp.
 US: Unemployment rate (%), Sep: 4.8 vs. 5.1 exp.
 US: Average hourly earnings (m/m%), Sep: 0.6 vs. 0.4 exp.
 US: Average hourly earnings (y/y%), Sep: 4.6 vs. 4.6 exp.
 CA: Employment change (k), Sep: 157 vs. 60 exp.
 CA: Unemployment rate (%), Sep: 6.9 vs. 6.9 exp.

Good Morning

Friday's nonfarm payrolls report was a mixed bag, with employment growth lower than expected but wage growth and the unemployment rate better than expected. The consensus is that the report won't deter the Fed from announcing tapering in November. Bond yields continue to head higher amidst renewed inflationary concerns, with the US 5-year rate hitting an 18-month high and the NZ 10-year swap rate reaching a fresh 2½-year high. Equity and currency moves were relatively restrained post-payrolls, the NZD closing the week around 0.6930.

The payrolls report revealed 194k new jobs created in the US in September, well below the 500k consensus estimate. The Delta variant outbreak in the US is thought to be at least partly to blame for the underwhelming job gain, for instance by making workers more hesitant about returning to the workforce, with some analysts pointing to seasonal adjustment issues as another factor behind the miss.

Other aspects of the report were more positive. There were positive revisions to prior months' jobs numbers of +169k, providing a partial offset to the forecast miss in September. The unemployment rate, which is taken from a separate survey of households, showed a 0.3% fall, to 4.8%, and wage growth was again stronger than expected, with average hourly earnings increasing by 0.6% on the month. Average hourly earnings have averaged an annualised 6% gain over the past six months, a sign that the US labour market conditions are 'tight' despite the unemployment rate being much higher than it was pre-Covid.

Moreover, with Covid-19 cases now trending lower in the US (the seven-day average of new cases has fallen below 100,000 for the first time since August), this bodes well for faster jobs growth in the coming months. The end to

generous unemployment benefits and the return to schools in the US, the effects of which were unlikely to have been fully captured in this payrolls report, should also encourage labour force participation and bolster job growth going forward.

For the Fed, which has signalled a low bar for a tapering announcement in November, the payrolls report is likely to be 'good enough'.

The market reaction saw an immediate decline in US Treasury yields and the USD, but these moves were reversed over the remainder of the session as the market came around to the view that the payrolls report was unlikely to change the Fed's course of action. Indeed, Fed rate hike expectations nudged a little bit higher on Friday, with the first hike priced in for late next year.

Global bond yields remain under upward pressure against a backdrop of growing inflation concerns. The US 10-year rate was up 4bps on Friday, to 1.61%, while the 5-year US rate closed at an 18-month high, at 1.06%. The moves in US rates were almost entirely driven by higher inflation expectations, with the 10-year breakeven inflation rate jumping 4bps to 2.51%, near its recent eight-year high.

Helping the move higher in rates and inflation expectations was a further increase in oil prices, with WTI crude oil futures hitting \$80 per barrel for the first time since 2014. Oil prices remain supported by strong demand, restrained supply from OPEC+ as well as demand from some energy consumers who can use oil an alternative to natural gas.

In the UK, the 10yr rate hit its highest level in more than 2 years, up 8bps to 1.16%, while Germany's 10-year rate is nearing its own 2½-year high (within 10bps), closing at -0.15%. The European bond market ignored a third consecutive daily fall in natural gas prices, which were off by almost 20% in the UK and Europe on Friday, with both benchmarks now almost 50% off the panic-driven highs from the middle of the week.

The BBDXY USD index ended unchanged on Friday, closing near its recent 12 month high. Movements in most of the major currencies were relatively modest (EUR, AUD, NZD, and GDP all within +/- 0.1%), with the two standout movers being the JPY and CAD. USD/JPY jumped 0.7%, with the increase in US Treasury yields helping to push the currency pair to its highest level since late-2018, at around 112.25. The CAD appreciated 0.6% to a two-month high

after the Canadian employment report revealed job growth almost three-time market expectations. The NZD closed Friday at around 0.6930.

Equity market changes were also fairly modest, with the S&P500 closing down 0.2%, paring its gain on the week to 0.8%, while the NASDAQ was off 0.5%. The Energy sector continued its recent strong run, up 3.1% on Friday, while 9 of the 11 sectors on the S&P500 were in the red.

In other economic data on Friday, the Caixin services PMI was much stronger than expected, rebounding from contractionary territory back to 53.4. While services activity has rebounded in China, it is the manufacturing sector which has come under increasing pressure in recent months amidst the ongoing power crunch. The FT reported on Friday that the Chinese authorities had ordered coal miners to boost production in a bid to ease power shortages.

Turning to domestic developments, upward pressure in Australian rates on Friday spilled over to the New Zealand market, with the 2-year swap rate rising 3bps, to 1.46%, and the 10-year rate up 6bps, to a fresh 2½-year high of 2.29%. While NZ rates have been pushing higher in recent weeks, they haven't matched the increases in Australia, seeing these NZ-Australian rate spreads start to normalise from very high levels. The 2-year spread in swaps is down to 107bps, having been as high as 128bps less than a month ago. That dynamic has also been at play in the currency market, where the NZD/AUD cross has fallen around 2½% over this same time. The NZD/AUD cross closed the week around 0.9480.

NZ Covid-19 cases continue to trend higher, with 60 cases reported yesterday and the seven-day average of new daily cases up to 37, both their highest levels since early September. Moreover, cases are now popping up in other areas of the North Island, with Northland put into an alert level 3 lockdown on Friday night and a case discovered in the Bay of Plenty over the weekend.

With Covid cases in New Zealand showing little sign of subsiding, the onus is on getting vaccination rates higher to allow an orderly removal of restrictions while protecting the population and reducing stress on the health system. On that note, a global comparison of ourworldindata.org data shows New Zealand has quickly caught up with many advanced economy peers in first doses. This source shows the proportion of the New Zealand population which has had a first dose is roughly the same as Israel – which was early out of the blocks with vaccination – slightly above the EU and the US and only marginally behind the UK. New Zealand is lagging many of these countries in second doses, but we will catch up over the coming months. The government has also pre-ordered 60,000 courses of Merck's new Covid-19 treatment drug, molnupiravir.

Up ahead today is the Covid alert level announcement by the Government. Experts are cautioning about Auckland being allowed to ease to Step 2 (from Step 1) within the level 3 umbrella it is currently under. Such a move would permit retail (physical) stores to open, outdoor social group limits enlarging to 25 (from 10 currently), and public facilities like libraries and pools opening their doors

It should be a quiet session ahead with the US market closed for Columbus Day. It's a busy week though, with US retail sales and CPI data, the latter of particular importance given the market's renewed focus on inflation, and the minutes to the Fed's most recent meeting released. The preliminary release of the ANZ Business survey for October is the focus in terms of domestic data.

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Coming Up

Nothing of note

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)				Other FX		Major Indices			Price						
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6931	+0.1	0.6909	0.6960	CHF	0.9275	-0.1		S&P 500	4,391	-0.2	27.4	Oil (Brent)	82.56	+1.0
AUD	0.7309	-0.0	0.7288	0.7338	SEK	8.742	-0.5		Dow	34,746	-0.0	22.2	Oil (WTI)	79.35	+1.3
EUR	1.1569	+0.1	1.1542	1.1586	NOK	8.540	-0.5		Nasdaq	14,580	-0.5	27.7	Gold	1756.3	-0.1
GBP	1.3615	-0.0	1.3584	1.3657	HKD	7.784	-0.0		Stoxx 50	4,073	-0.6	25.1	HRC steel	1882.0	+0.1
JPY	112.24	+0.5	111.51	112.25	CNY	6.444	-0.0		FTSE	7,096	+0.2	18.7	CRB	235.4	+0.5
CAD	1.2472	-0.6			SGD	1.355	-0.3		DAX	15,206	-0.3	16.6	Wheat Chic.	747.3	-1.1
NZD/AUD	0.9483	+0.1			IDR	14,223	+0.0		CAC 40	6,560	+0.2	33.6	Sugar	20.29	+2.3
NZD/EUR	0.5991	-0.1			THB	33.88	+0.3		Nikkei	28,049	+1.3	18.8	Cotton	110.60	+0.5
NZD/GBP	0.5091	+0.2			KRW	1,195	+0.3		Shanghai	3,592	+0.7	9.8	Coffee	201.4	+1.4
NZD/JPY	77.79	+0.6			TWD	28.08	+0.4		ASX 200	7,320	+0.9	20.0	WM powder	3810.0	+0.8
NZD/CAD	0.8644	-0.5			PHP	50.57	+0.0		NZX 50	13,087	-0.1	6.6	Australian Futures		
NZ TWI	74.06	+0.2											3 year bond	99.325	-0.08
													10 year bond	98.30	-0.06

Interest Rates						
	Rates		Swap Yields		Benchmark 10 Yr Bonds	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day
USD	0.25	0.12	0.43	1.64	USD	1.61 0.04
AUD	0.10	0.02	0.38	1.78	AUD	1.64 0.05
NZD	0.50	0.66	1.46	2.29	NZD	2.04 0.05
EUR	0.00	0.06	-0.41	0.23	GER	-0.15 0.03
GBP	0.10	0.09	0.84	1.32	GBP	1.16 0.08
JPY	-0.03	-0.08	0.01	0.13	JPY	0.09 0.02
CAD	0.25	0.46	1.04	2.06	CAD	1.63 0.06

NZ Government Bonds			NZ Swap Yields		
	Last	Net Day		Last	Net Day
NZGB 5 1/2 04/15/23	1.00	0.02	1 year	1.11	0.01
NZGB 0 1/2 05/15/26	1.54	0.04	2 year	1.46	0.03
NZGB 0 1/4 05/15/28	1.79	0.05	5 year	1.91	0.05
NZGB 1 1/2 05/15/31	2.04	0.05	7 year	2.08	0.06
NZGB 2 05/15/32	2.15	0.06	10 year	2.29	0.06
NZGB 1 3/4 05/15/41	2.62	0.06	15 year	2.49	0.06
NZGB 2 3/4 05/15/51	2.81	0.06			

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

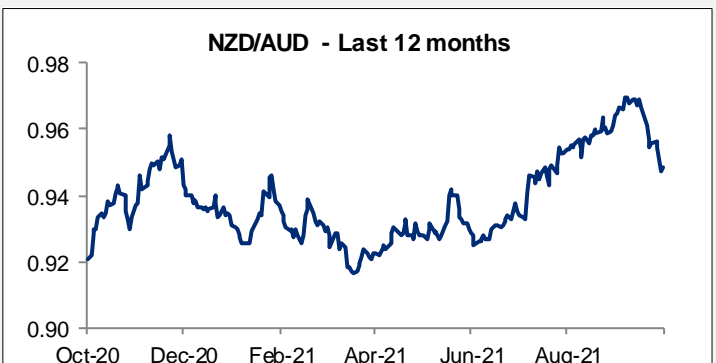
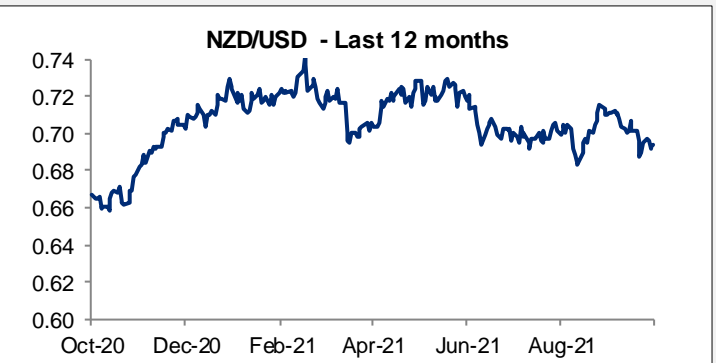
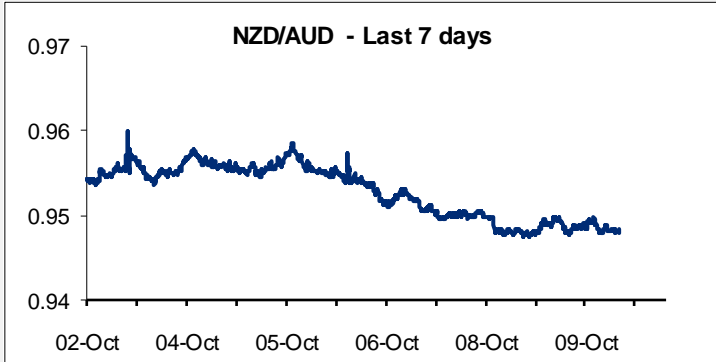
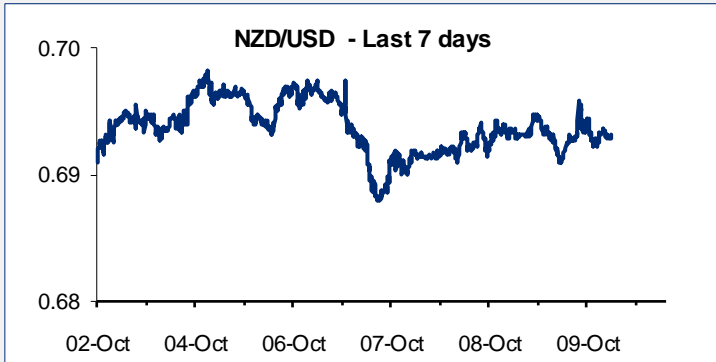
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: New York close

Source: Bloomberg

NZD exchange rates

9/10/2021	NY close	Prev. NY close
USD	0.6931	0.6925
GBP	0.5097	0.5085
AUD	0.9494	0.9471
EUR	0.5998	0.5995
JPY	77.88	77.30
CAD	0.8654	0.8692
CHF	0.6436	0.6429
DKK	4.4626	4.4604
FJD	1.4581	1.4551
HKD	5.4014	5.3912
INR	52.04	51.79
NOK	5.9261	5.9431
PKR	118.19	118.25
PHP	35.09	35.02
PGK	2.4563	2.4298
SEK	6.0657	6.0856
SGD	0.9399	0.9408
CNY	4.4713	4.4630
THB	23.49	23.40
TOP	1.5600	1.5639
VUV	77.27	77.26
WST	1.7838	1.7794
XPF	71.47	71.08
ZAR	10.3583	10.3583



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.46	-2.14
3 Months	-7.83	-7.29
6 Months	-19.59	-18.51
9 Months	-37.49	-35.81
1 Year	-58.18	-56.19

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.52	-3.84
3 Months	-15.42	-14.24
6 Months	-33.56	-31.05
9 Months	-58.89	-55.14
1 Year	-87.70	-82.88

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