

11 October 2022



Events Round-Up

Nothing of note

Good Morning

The new week has begun where last week left off, with higher global rates, weaker equity markets and a stronger USD. Weaker risk sentiment hasn't been helped by Russia's bombardment of Ukrainian cities and the focus has returned to the UK, with its gilt market leading the global bond market sell-off, as the BoE's gilt buying operation looks to end this week. The NZD and AUD have traded at fresh 2½-year lows.

US public holidays are normally a quiet time for markets, but not today. Familiar themes are at play, and it is a case of "more of the same" regarding market movements. Back in June, JP Morgan CEO Jamie Dimon said he was preparing the bank for an economic "hurricane". Overnight on CNBC he said the US economy was actually still doing well, but warned a "very, very, serious" mix of headwinds was likely to tip the US and global economy into recession by the middle of next year, which is increasingly becoming the consensus view. Dimon added that the S&P500 could fall by "another easy 20%".

The S&P500 is open even on holiday and was down over 1.4% but is trying to recover as we go to print and now only shows a modest fall. The cash Treasuries market is closed but the futures market is pointing to 10-year yields up in the order of 10bps, back to close to the 4% mark.

In retaliation for Ukraine's advance into annexed Russian territory in Ukraine's North-East and the attack on the Kerch bridge linking Crimea with Russia, Russian missiles attacked Kyiv and other cities across the country, targeting civilian infrastructure. President Putin vowed to continue with the bombardment saying "...if attempts to commit terrorist acts on our territory continue, the responses from Russia will be harsh and their scale will correspond to the level of threat to Russia".

UK Chancellor Kwarteng announced that he would deliver a full set of economic and fiscal forecasts, alongside the Office for Budget Responsibility (OBR) independent forecasts on 31 October. This is a few weeks ahead of schedule and will allow the BoE to incorporate the forecasts into its 3rd of November policy decision.

Perhaps anticipating a chaotic week ahead of the end of its emergency gilt buying facility, the Bank of England extended its emergency measures. It will double the allowable gilt purchases to £10b per day this week after which it end, although purchases to date have been a fraction of this. The BoE will also launch a temporary repo facility through to 10 November, allowing a broad range of collateral, including investment grade corporate bonds, to allow banks/pension funds caught in the LDI liquidity trap to access funds. Rather than having to sell gilts to raise cash for margin calls, these funds can pledge gilt holdings rather than sell them.

Rather than calm the market, these announcements simply reminded the market of the precarious position of the UK's finances and some were obviously hoping that the BoE's gilt buying programme would be extended through time, rather than replaced by a repo facility, and selling pressure of gilts stepped up. Rates increased across the curve, driven by the long end, with the 30-year gilt up 29bps to 4.67% and the 10-year rate up 24bps to 4.46%. This sentiment has spilled over into other bond markets, and French and German 10-year rates are up in the order of 12-14bps on the day.

The risk-off vibe has sent the USD higher, with dollar indices up in the order of 0.2%. The DXY index is up to 113, still shy of the 114.8 high reached at the end of September. EUR and GBP are modestly weaker, trading at 0.9715 and 1.1070 respectively. USD/JPY is trading up to 145.7, close to the peak level seen in September ahead of the MoF currency intervention. After dusting off USD20b, the MoF will no doubt be ready to enter the market again when USD/JPY breaks up through 146.

China returned from a week-long holiday, seeing USD/CNY jump up 0.55% to 7.155. The NZD and AUD have been the worst performing currencies, as usual during a risk-off session, and not helped by the ongoing bad news out of China we noted yesterday. The NZD traded at a fresh low of 0.5545 and currently sits not much higher than that, while the AUD has traded down to 0.6275. NZD crosses are all lower, apart from NZD/AUD drifting up to 0.8830, given underperformance of the AUD.

It was a quiet day for the domestic rates market, with yields marked higher in the face of higher global rates. Swap rates were up about 8bps, with the 2-year rate back up to 4.80%, near the closing high set late-September. NZGB yields were up 9-11bps across the curve, with the

10-year rate closing at 4.39%, its highest level since 2014. The Australian 10-year bond future is up 4bps in yield terms since the NZ close, setting the scene for further upside pressure on NZ rates at the open.

In the day ahead, NZ card spending data are released. Tonight sees the release of UK labour market data and the US NFIB small business survey.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card spending total (m/m%)	Sep	0.7		10:45
AU	Westpac consumer confid.	Oct	84.4		12:30
AU	NAB business conditions	Sep	20		13:30
UK	Unemployment rate (%)	Aug	3.6	3.6	19:00
US	NFIB small business opt.	Sep	91.3	91.8	23:00
US	Fed's Mester speaks to Economics Club of NY				05:00

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	0.5567	-0.8	0.5545	0.5605	CHF	0.9991	+0.5	S&P 500	3,624	-0.4	-17.5	Oil (Brent)	97.26	-0.7
AUD	0.6303	-1.1	0.6275	0.6331	SEK	11.285	+0.7	Dow	29,294	-0.0	-15.7	Oil (WTI)	92.29	-0.4
EUR	0.9717	-0.3	0.9682	0.9745	NOK	10.671	-0.3	Nasdaq	10,586	-0.6	-27.4	Gold	1667.3	-2.0
GBP	1.1076	-0.1	1.1020	1.1111	HKD	7.850	-0.0	Stoxx 50	3,357	-0.6	-17.6	HRC steel	751.0	+0.4
JPY	145.66	+0.3	145.24	145.80	CNY	7.155	+0.6	FTSE	6,959	-0.5	-1.9	CRB	285.6	+1.2
CAD	1.3748	+0.1			SGD	1.436	+0.3	DAX	12,273	-0.0	-19.3	Wheat Chic.	952.3	+6.4
NZD/AUD	0.8832	+0.3			IDR	15,318	+0.4	CAC 40	5,841	-0.4	-11.0	Sugar	18.61	-0.4
NZD/EUR	0.5729	-0.5			THB	37.98	+1.0	Nikkei	27,116	-0.7	-3.3	Cotton	88.23	+4.7
NZD/GBP	0.5026	-0.6			KRW	1,427	+1.0	Shanghai	2,974	-1.7	-17.2	Coffee	217.5	-0.7
NZD/JPY	81.09	-0.6			TWD	31.65	+0.4	ASX 200	6,668	-1.4	-8.7	WM powder	3720	+1.1
NZD/CAD	0.7654	-0.6			PHP	59.00	+0.1	NZX 50	10,918	-1.7	-16.1	Australian Futures		
NZ TWI	66.91	-0.3										3 year bond	96.45	0.01
Interest Rates								NZ Government Bonds				10 year bond	96.05	-0.02
Rates		Swap Yields		Benchmark 10 Yr Bonds								NZ Swap Yields		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last				Last	
USD	3.25	3.91	4.64	3.90	USD	3.88	0.00	NZGB 0 1/2 05/15/24	4.25	0.09		1 year	4.73	0.05
AUD	2.60	2.90	3.89	4.52	AUD	3.87	0.02	NZGB 4 1/2 04/15/27	4.29	0.09		2 year	4.80	0.08
NZD	3.50	3.92	4.80	4.51	NZD	4.39	0.11	NZGB 3 04/20/29	4.31	0.09		5 year	4.54	0.08
EUR	0.75	1.29	3.00	3.33	GER	2.34	0.15	NZGB 1 1/2 05/15/31	4.34	0.10		7 year	4.51	0.08
GBP	2.25	3.42	5.48	4.78	GBP	4.47	0.23	NZGB 2 05/15/32	4.39	0.11		10 year	4.51	0.08
JPY	-0.04	-0.02	0.15	0.56	JPY	0.25	0.00	NZGB 1 3/4 05/15/41	4.81	0.11		15 year	4.55	0.08
CAD	3.25	4.33	4.48	3.87	CAD	3.39	0.08	NZGB 2 3/4 05/15/51	4.74	0.11				

* 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

11/10/2022	7:04 am	Prev. NY close
USD	0.5567	0.5611
GBP	0.5026	0.5061
AUD	0.8832	0.8802
EUR	0.5729	0.5758
JPY	81.09	81.50
CAD	0.7654	0.7709
CHF	0.5562	0.5580
DKK	4.2618	4.2837
FJD	1.2863	1.2955
HKD	4.3700	4.4046
INR	45.83	46.20
NOK	5.9404	6.0074
PKR	121.28	123.37
PHP	32.84	33.06
PGK	1.9602	1.9757
SEK	6.2823	6.2891
SGD	0.7996	0.8036
CNY	3.9834	3.9928
THB	21.11	20.98
TOP	1.3255	1.3366
VUV	68.25	68.54
WST	1.5504	1.5580
XPF	68.26	68.59
ZAR	10.0591	10.1537

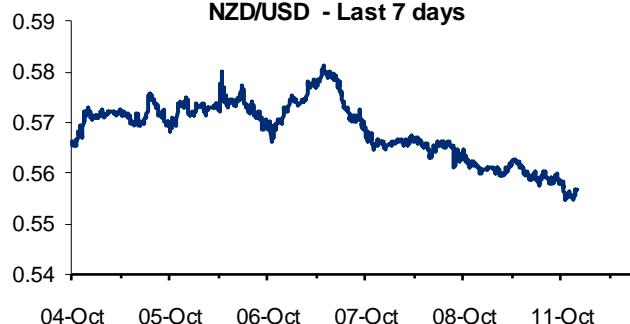
NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.98	1.47
3 Months	4.30	4.99
6 Months	10.81	12.31
9 Months	11.81	14.78
1 Year	12.33	15.37

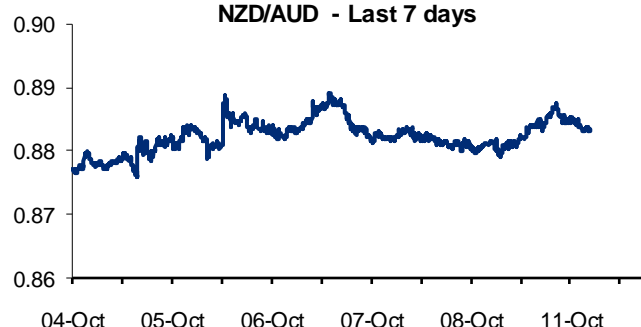
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.24	-3.07
3 Months	-17.80	-16.00
6 Months	-35.18	-31.43
9 Months	-51.60	-44.16
1 Year	-63.65	-53.37

NZD/USD - Last 7 days



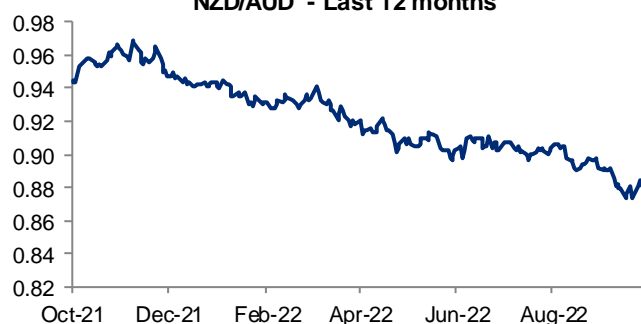
NZD/AUD - Last 7 days



NZD/USD - Last 12 months



NZD/AUD - Last 12 months



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