

12 November 2021



Events Round-Up

NZ: REINZ house sales (y/y%), Oct: -21.7 vs. -37.9 prev.

NZ: Food prices (m/m%), Oct: -0.9 vs. 0.5 prev.

AU: Unemployment rate (%), Oct: 5.2 vs. 4.8 exp.

AU: Employment change (k), Oct: -46 vs. 50 exp.

UK: GDP (q/q%), Q3: 1.3 vs. 1.5 exp.

UK: Industrial production (m/m%), Sep: -0.4 vs. 0.2 exp.

Good Morning

Markets have been quieter overnight, with the US bond market closed for Veteran's Day and no major economic data released. US equities have recovered a little from their post CPI sell-off while the USD has pushed up to its highest level in more than a year. The NZD has fallen to around 0.7025 amidst broad-based USD strength. In other news, the NZ government announced that it plans to issue an inaugural sovereign green bond late next year.

After the volatility that followed the US CPI inflation surprise on Wednesday night, market activity has been more sedate overnight. The US Treasury futures market has been open, despite the bond market being closed for Veteran's Day, with US interest rates consolidating after their big, post-CPI moves higher. Futures imply a US 10-year rate of around 1.58%, 3bps higher than yesterday morning's close but still well within its trading range over the past nine months.

There hasn't been much news overnight, but risk appetite has improved, with the S&P500 increasing 0.2% and the NASDAQ rebounding 0.7% from yesterday's heavy sell off.

Supporting risk sentiment have been reports that Chinese authorities are taking some steps to support the real estate market, including allowing firms in the sector to raise funds in the Chinese interbank market. Industrial commodities have rallied overnight (iron ore and copper futures are both higher by around 2.5%) with commentators attributing the moves, in part, to expectations of some incremental policy support for the Chinese real estate sector. In other news, Evergrande has made \$148.1m of coupon payments on two USD bonds over the past few days, just before the end of the 30-day grace period. This means the overleveraged Chinese real estate developer has likely staved off default for another

few months, with the next coupon payment due in January.

The USD has continued its recent strong run higher, with both the BBDXY and DXY indexes hitting their highest levels in more than a year overnight. The catalyst for this recent move higher in the USD has been the increase in Fed rate hike expectations following the US CPI release, with the first hike now fully priced by July next year.

Commodity currencies have underperformed over the past 24 hours, despite industrial commodities and US equities rebounding overnight. The NZD and AUD are down 0.8% from this time yesterday (the NZD is down to around 0.7025) and the CAD off more than 1%.

ECB Governing Council member Holzmann, seen as one of the more hawkish voices on the committee, said the ECB's bond buying programme could completely stop by next September, if inflation was judged to be sustainably at the 2% target by then. There was a muted reaction to Holzmann's comments, although the market is back to pricing 20bps of ECB rate hikes by the end of 2022, mainly on the back of the US inflation surprise. Germany's 10-year yield is 2bps higher overnight, at -0.23%, while the EUR has fallen 0.5% to a fresh 15 month low of 1.1455.

Australia's employment report showed a surprising 46k fall in jobs in October and a 0.6% increase in the unemployment rate, to 5.2%, but the market quickly brushed off the data. Lockdowns in Victoria and NSW are distorting the employment picture at present, but forward-looking indicators point to significant job gains in the coming months. The market prices around 100bps of rate hikes by the RBA by the end of next year, signalling that investors think the RBA will ultimately abandon its dovish forward guidance and join the tightening party next year.

Domestic rates were sharply higher yesterday, following the big US bond market sell-off following the upside surprise to US CPI. The 2-year swap rate was 9bps higher, to 2.30%, near its 3½-year high set late last month, while the 5 and 10-year rates were both 8bps higher. The implied probability of a 50bps RBNZ OCR hike later this month increased from 30% to around 45% with the OCR now priced to reach almost 3% in mid-2023.

Yesterday's REINZ data showed the NZ housing market remained on a strong footing, with sales and prices lifting in October from a lull in September. The housing market

was unquestionably strong in October, but we expect momentum to materially slow over the coming year off the back of, amongst other factors, the 125bps to 160bps lift in fixed mortgage rates since the start of June. A correction in house prices remains a material risk at some stage.

Finally, in an exciting development for New Zealand's capital markets, the government announced overnight that it plans to issue an inaugural sovereign 'green' bond late next year. The proceeds from green bond issuance are dedicated to specific environmental or climate initiatives, in New Zealand's case funding the transition to a low carbon economy. New Zealand will join the growing list of sovereigns which have gone down this avenue, including the UK, Germany, and France. International experience has been that sovereigns have often been able to issue green bonds at lower interest rates than conventional bonds, given the fast growing pools of money managed by sustainable funds and those that explicitly incorporate ESG (environment, social and sustainability) factors into their investment decisions. The UK has issued its first two green bonds over the past few months, with the so-called 'greenium' at new issue estimated at around 2-3bps.

The NZ Manufacturing PMI, which moved back into expansionary territory in September, is released this morning. Tonight sees ECB Chief Economist Lane and NY Fed President Williams speaking, with the market likely to be particularly attuned to any comments from Williams on the inflation and monetary policy outlooks, post the big upside surprise to CPI. US consumer confidence is also released.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Oct		51.4	10:30
EC	Industrial Production (m/m%)	Sep	-0.5	-1.6	23:00
EC	ECB's Lane Speaks				02:50
US	JOLTS Job Openings (k)	Sep	10300	10439	04:00
US	U. of Mich. Sentiment	Nov P	72.5	71.7	04:00
US	Fed's Williams Speaks				06:10

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	0.7017	-0.6	0.7013	0.7051	CHF	0.9214	+0.4	S&P 500	4,657	+0.2	30.3		Oil (Brent)	82.23	-0.5
AUD	0.7291	-0.5	0.7287	0.7320	SEK	8.712	+0.1	Dow	35,987	-0.3	22.4		Oil (WTI)	80.86	-0.6
EUR	1.1451	-0.2	1.1451	1.1485	NOK	8.674	+0.3	Nasdaq	15,742	+0.8	33.6		Gold	1864.3	+0.9
GBP	1.3372	-0.2	1.3364	1.3433	HKD	7.793	+0.0	Stoxx 50	4,358	+0.2	25.7		HRC steel	1812.0	+0.2
JPY	114.09	+0.2	113.81	114.13	CNY	6.391	+0.0	FTSE	7,384	+0.6	15.7		CRB	234.7	-0.8
CAD	1.2595	+0.8			SGD	1.354	+0.1	DAX	16,083	+0.1	21.7		Wheat Chic.	821.5	+0.7
NZD/AUD	0.9624	-0.1			IDR	14,278	+0.2	CAC 40	7,060	-0.3	29.6		Sugar	20.10	+2.6
NZD/EUR	0.6128	-0.4			THB	32.81	+0.0	Nikkei	29,278	+0.6	14.7		Cotton	118.50	-0.1
NZD/GBP	0.5248	-0.4			KRW	1,181	+0.0	Shanghai	3,533	+1.2	5.8		Coffee	213.5	+3.3
NZD/JPY	80.06	-0.5			TWD	27.83	+0.3	ASX 200	7,382	-0.6	15.0		WM powder	4150.0	+0.0
NZD/CAD	0.8838	+0.2			PHP	50.15	+0.1	NZX 50	13,027	+0.0	2.8		Australian Futures		
NZ TWI	75.00	-0.4											3 year bond	98.8	0.00
													10 year bond	98.16	0.03
Interest Rates								NZ Government Bonds				NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds				Last		Last		Last		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	0.25	0.15	0.76	1.58	USD	1.55	0.00	NZGB 5 1/2 04/15/23	1.63	0.04	1 year	1.63	0.04		
AUD	0.10	0.04	0.91	2.07	AUD	1.81	0.08	NZGB 0 1/2 05/15/26	2.32	0.07	2 year	2.30	0.09		
NZD	0.50	0.84	2.30	2.73	NZD	2.67	0.10	NZGB 0 1/4 05/15/28	2.48	0.07	5 year	2.69	0.09		
EUR	0.00	0.06	-0.28	0.20	GER	-0.23	0.02	NZGB 1 1/2 05/15/31	2.61	0.09	7 year	2.71	0.09		
GBP	0.10	0.11	1.13	1.21	GBP	0.92	-0.01	NZGB 2 05/15/32	2.67	0.10	10 year	2.73	0.08		
JPY	-0.06	-0.09	0.01	0.12	JPY	0.07	0.01	NZGB 1 3/4 05/15/41	2.94	0.11	15 year	2.80	0.06		
CAD	0.25	0.49	1.51	2.13	CAD	1.68	0.09	NZGB 2 3/4 05/15/51	2.99	0.09					

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

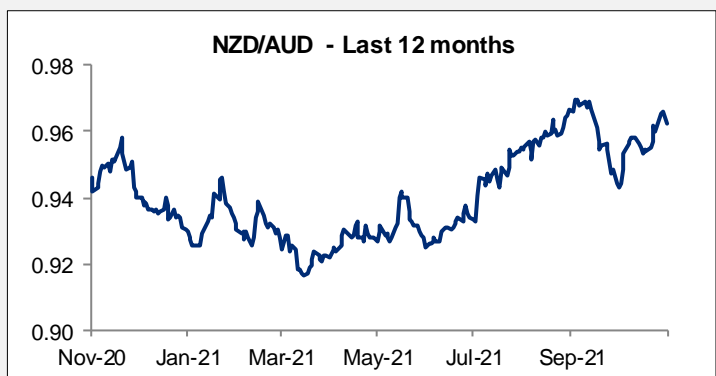
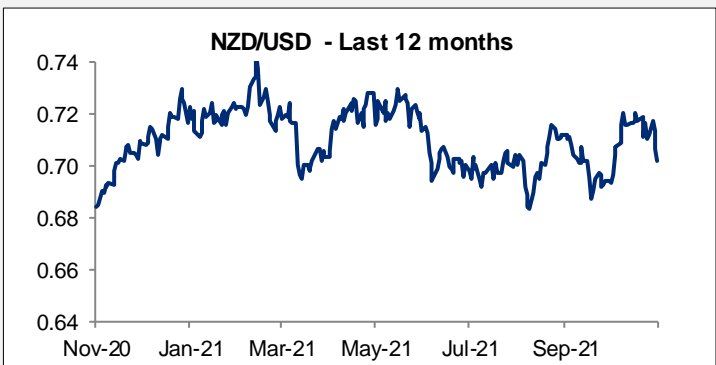
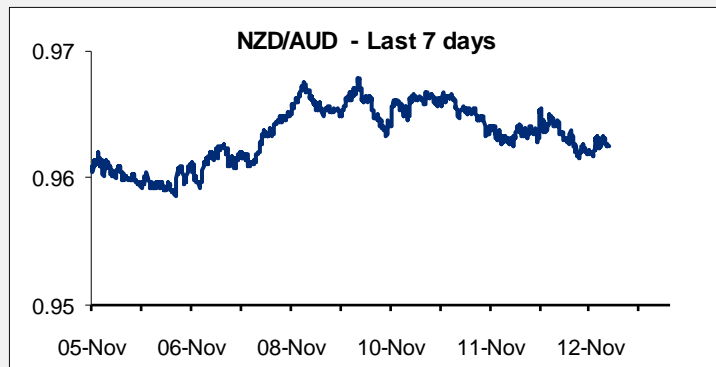
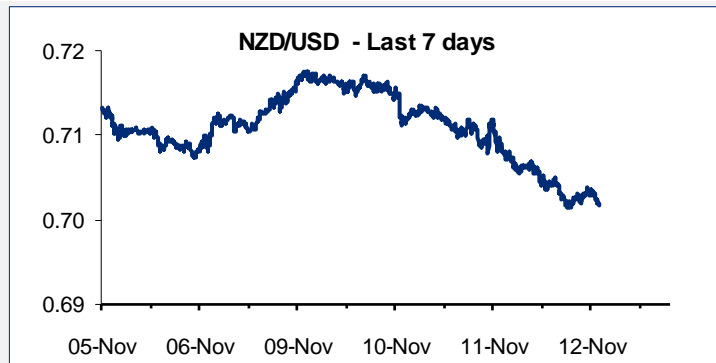
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:55

Source: Bloomberg

NZD exchange rates

12/11/2021	6:55 a.m.	Prev. NY close
USD	0.7017	0.7061
GBP	0.5248	0.5267
AUD	0.9624	0.9637
EUR	0.6128	0.6151
JPY	80.06	80.43
CAD	0.8838	0.8820
CHF	0.6465	0.6482
DKK	4.5573	4.5752
FJD	1.4683	1.4741
HKD	5.4681	5.5015
INR	52.29	52.52
NOK	6.0869	6.1095
PKR	121.92	120.03
PHP	35.20	35.36
PGK	2.4621	2.4758
SEK	6.1129	6.1458
SGD	0.9504	0.9553
CNY	4.4848	4.5111
THB	23.10	23.13
TOP	1.5639	1.5667
VUV	77.94	78.15
WST	1.7901	1.8010
XPF	72.15	72.47
ZAR	10.7362	10.6115



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.05	-2.72
3 Months	-10.92	-10.42
6 Months	-29.44	-28.44
9 Months	-55.80	-54.04
1 Year	-86.76	-84.75

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.30	-4.59
3 Months	-19.80	-18.70
6 Months	-45.46	-43.08
9 Months	-79.14	-75.29
1 Year	-114.47	-109.71

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