

12 October 2021



Events Round-Up

Nothing of note

Good Morning

While the US bond market has been closed for Columbus Day and no major economic data has been released, there have still been some big price movements overnight. Oil prices continue to head higher, helping to push up global bond yields, as inflation concerns mount. USD/JPY has jumped 1%, to above the 113 mark, while the AUD continues to outperform as NSW starts reopening its economy. The NZD is slightly higher over the past 24 hours, trading this morning around 0.6945.

The ongoing energy crisis remains front and centre for market participants. WTI oil futures are up another 2% overnight, with the benchmark hitting a fresh seven-year high above \$81 per barrel. Yesterday saw coal futures in China jump over 10%, to a new record, after reports that heavy flooding in the Shanxi province had knocked out 60 of the 682 coal mines in the region (which accounts for around 30% of the country's supply). Analysts think the energy shortage in China will significantly affect industrial power usage later this year, potentially leading to knock-on effects to demand for industrial commodities and activity. Inflation is also set to spike higher, with economists looking for Chinese PPI inflation to ramp up to 10.5% y/y when the data is released on Thursday, with potential spill-overs to inflation in other countries.

For now, industrial commodity prices are holding in relatively well, a sign of underlying strength in the global economy. Copper prices were up almost 2% overnight while iron ore futures gained 3.5%. Iron ore prices have recovered around 50% from the lows reached less than a month ago when concerns around slowing demand from China, in part due to worries about Evergrande and the Chinese real estate sector, were at their peak. Even after their recent rebound, iron ore prices remain some 34% below their recent highs set in August.

Equity markets are slightly lower overnight, although the moves have been small. The S&P500 is down 0.3% on the session while the NASDAQ is off 0.1%. Clearly, if market concerns around stagflation genuinely escalate, such that investors see recession as a serious possibility, then equities will see a major correction. We haven't seen that

to date. Corporate earnings season starts this week, with all the major US banks reporting.

The other major theme is continued upward pressure on global bond yields. The continued rise in energy prices, adding to the broader undercurrent of inflationary pressures, and the hawkish tilts amongst some central banks are contributing to the increase in bond yields. The start point also matters: global bond yields were extremely low to begin with and, even after their recent rebound, they remain very low on a historical basis.

The US Treasury market is closed for Columbus Day but 10-year bond yields in Europe were up around 3bps, with the German 10-year rate closing in on a 2½-year high. In Australia, there was another 5bps increase in the 3-year bond yield yesterday, taking it above 0.50% for the first time since March last year, as the reopening process for the NSW economy commenced. Those increases in Australian rates spilled over to the New Zealand curve yesterday, with the 2-year swap rate lifting 3bps, to 1.49%, and the 10-year rate up a chunky 7bps, to 2.35%.

Policymakers, at least in some central banks, are starting to sound less sure that inflation will prove to be as 'transitory' as initially thought. In an interview over the weekend, BoE Governor Bailey said the Bank needed to "prevent the thing [inflation] becoming permanently embedded because that would obviously be very damaging" while known MPC hawk Saunders told the Telegraph that "it is appropriate that the markets have moved to pricing a significantly earlier path of tightening than they did previously." Short-term interest rate futures in the UK were as much as 9bps higher, with the market now pricing a greater than 50% chance of a 15bps hike at the BoE's next meeting in November. The 10-year UK rate hit a fresh 2½-year high of 1.19%.

The hawkish Bank of England commentary hasn't added much support to the GBP, which is marginally lower to start the week.

The big mover in the currency market has been USD/JPY, which has jumped almost 1%, to around 113.35, its highest level since late-2018. The BoJ, which is still facing the problem of inflation being too low, not too high, is not going to follow the Fed with less accommodative policy. Therefore, higher US bond yields are translating to wider interest rate differentials, lending support to USD/JPY. The Nikkei was up 1.6%, benefiting from the weaker JPY.

JPY weakness has been the main driver behind USD index strength, with relatively modest movements in most of the other majors. The BBDXY and DXY indices are up around 0.25%, with both hovering just below year-to-date highs.

In Australia, NSW started its phased reopening yesterday, having surpassed the state government's 70% threshold for fully vaccinated adults last week. The second phase of its reopening plan, after the vaccination rate exceeds 80%, is likely to be either next week or the one after. Victoria is likely to start reopening later this month.

The start of the reopening of the Australian economy and strength in industrial commodities has seen the AUD outperform to start the week, gaining 0.6% to 0.7350, a one-month high.

The NZD has also appreciated, albeit a more modest 0.2%, to 0.6945. The NZD/AUD cross has made a new 2½-month low, at 0.9445, consistent with the two countries being in different places with respect to reopening (Australia has started reopening while Auckland is still in lockdown with little visibility around when restrictions will start to come off). NZD/JPY is up more than 1% and has hit a four-month high overnight, just below 79.0.

At its much awaited Covid alert level announcement yesterday, PM Ardern said current restrictions would remain in place for Auckland for at least another week with schools to remain closed (except for distance learning) for the start of term 4 next week. The restrictions will be reassessed next Monday, although the government remains vague about what conditions would be needed for restrictions to ease. The level 3 lockdowns

in the Waikato and Northland were extended until Thursday, with those alert levels to be reassessed on Wednesday by cabinet. Finally, the government announced that vaccination will be mandatory for education workers and most in the healthcare sector.

Finally, pharmaceutical company Merck officially submitted a request for emergency use authorisation in the US for its Covid treatment drug, molnupiravir. The drug, which comes as a tablet and (helpfully) can be taken at home, was found to halve the risk of hospitalisation for those with mild or moderate symptoms in clinical trials. The New Zealand government has pre-ordered 60,000 courses of the drug, which still needs to be signed off by local regulator Medsafe.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Truckometer Heavy (m/m%)	Sep		-18.1	10:00
NZ	Card Spending Retail (m/m%)	Sep		-19.8	10:45
AU	NAB Business Conditions	Sep		14	13:30
UK	ILO Unemployment Rate (%)	Aug	4.5	4.6	19:00
UK	Employment Change (3m/3m)	Aug	250	183	19:00
GE	ZEW Survey Expectations	Oct	24	26.5	22:00
US	NFIB Small Business Optimism	Sep	99.5	100.1	23:00
EC	ECB's Lane Speaks				01:30
US	JOLTS Job Openings (m)	Aug	10.94	10.93	03:00
US	Fed's Bostic Speaks on Inflation at Peterson Institute				05:30

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	0.6939	+0.1	0.6910	0.6944	CHF	0.9275	+0.0	S&P 500	4,391	-0.3	27.4	Oil (Brent)	82.56	+1.8
AUD	0.7309	+0.6	0.7272	0.7324	SEK	8.742	+0.2	Dow	34,746	-0.3	22.2	Oil (WTI)	79.35	+2.1
EUR	1.1569	-0.1	1.1548	1.1572	NOK	8.540	+0.5	Nasdaq	14,580	-0.1	27.7	Gold	1756.3	-0.2
GBP	1.3615	-0.1	1.3571	1.3638	HKD	7.784	-0.1	Stoxx 50	4,073	-0.0	25.1	HRC steel	1882.0	+0.9
JPY	112.24	+1.0	111.23	111.64	CNY	6.444	+0.1	FTSE	7,096	+0.7	18.7	CRB	235.4	+0.5
CAD	1.2472	+0.1			SGD	1.355	+0.0	DAX	15,206	-0.0	16.6	Wheat Chic.	747.3	-0.1
NZD/AUD	0.9494	-0.4			IDR	14,223	-0.1	CAC 40	6,560	+0.0	33.6	Sugar	20.29	+0.1
NZD/EUR	0.5998	+0.3			THB	33.88	-0.8	Nikkei	28,049	+1.6	18.8	Cotton	110.60	+0.5
NZD/GBP	0.5097	+0.2			KRW	1,195	-0.0	Shanghai	3,592	-0.0	9.8	Coffee	201.4	+1.3
NZD/JPY	77.88	+1.1			TWD	28.08	+0.4	ASX 200	7,320	-0.3	20.0	WM powder	3810.0	+0.8
NZD/CAD	0.8654	+0.2			PHP	50.57	+0.4	NZX 50	13,087	-0.5	6.6			
NZ TWI	74.06	+0.0												

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		Last		Last		
USD	0.25	0.12	0.43	1.64	USD	1.61	0.04	NZGB 5 1/2 04/15/23	1.00	0.02	1 year	1.11	0.01
AUD	0.10	0.02	0.38	1.78	AUD	1.64	0.05	NZGB 0 1/2 05/15/26	1.54	0.04	2 year	1.46	0.03
NZD	0.50	0.66	1.46	2.29	NZD	2.04	0.00	NZGB 0 1/4 05/15/28	1.79	0.05	5 year	1.91	0.05
EUR	0.00	0.06	-0.41	0.23	GER	-0.15	0.03	NZGB 1 1/2 05/15/31	2.04	0.05	7 year	2.08	0.06
GBP	0.10	0.09	0.84	1.32	GBP	1.16	0.08	NZGB 2 05/15/32	2.15	0.06	10 year	2.29	0.06
JPY	-0.03	-0.08	0.01	0.13	JPY	0.09	0.02	NZGB 1 3/4 05/15/41	2.62	0.06	15 year	2.49	0.06
CAD	0.25	0.46	1.04	2.06	CAD	1.63	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

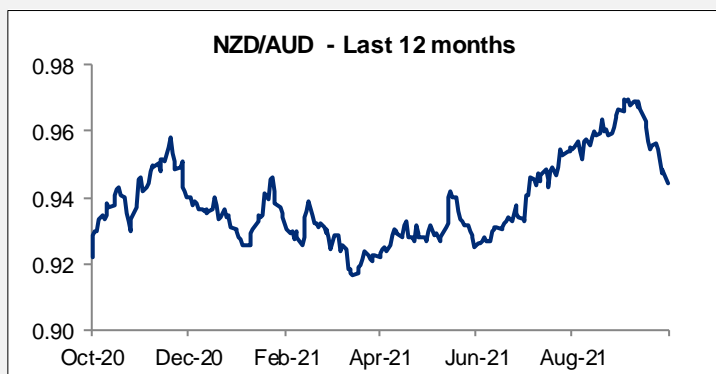
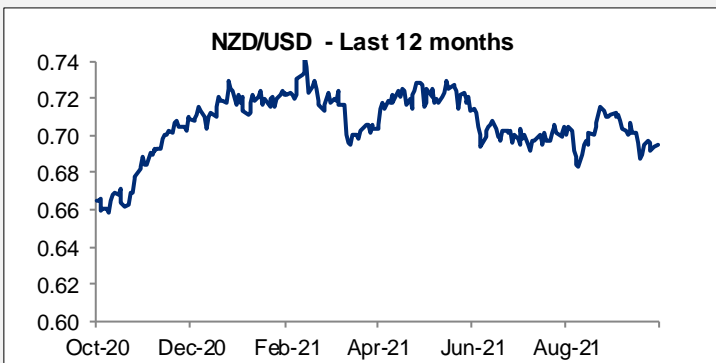
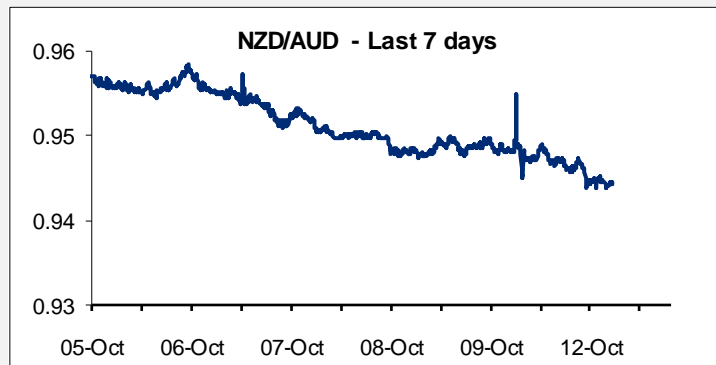
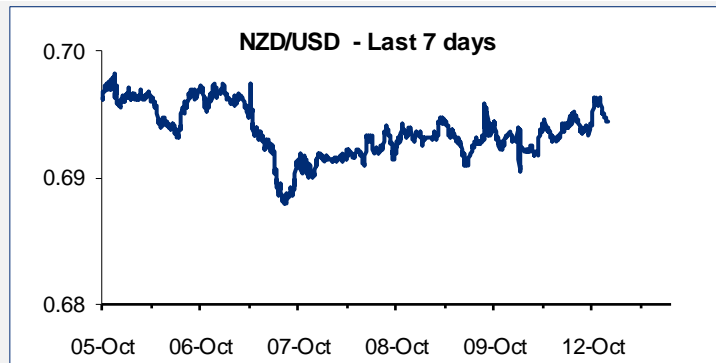
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:51

Source: Bloomberg

NZD exchange rates

12/10/2021	6:51 a.m.	Prev. NY close
USD	0.6939	0.6939
GBP	0.5097	0.5097
AUD	0.9494	0.9494
EUR	0.5998	0.5998
JPY	77.88	77.88
CAD	0.8654	0.8654
CHF	0.6436	0.6436
DKK	4.4626	4.4626
FJD	1.4581	1.4581
HKD	5.4014	5.4014
INR	52.04	52.04
NOK	5.9261	5.9261
PKR	118.19	118.19
PHP	35.09	35.09
PGK	2.4563	2.4563
SEK	6.0657	6.0657
SGD	0.9399	0.9399
CNY	4.4713	4.4713
THB	23.49	23.49
TOP	1.5600	1.5600
VUV	77.27	77.27
WST	1.7838	1.7794
XPF	71.47	71.47
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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