Markets Today

13 December 2021

Events Round-Up

NZ: Manufacturing PMI, Nov: 50.6 vs. 54.3 prev.

NZ: Card spending (total, m/m%), Nov: 9.1 vs. 9.4 prev.

UK: GDP (3m/3m%), Oct: 0.9 vs. 1 exp.

US: CPI (m/m%), Nov: 0.8 vs. 0.7 exp.

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

US: CPI (y/y%), Nov: 6.8 vs. 6.8 exp.

US: CPI ex food and energy (y/y%), Nov: 4.9 vs. 4.9 exp.

US: Uni. Michigan consumer sentiment, Dec: 70.4 vs. 68 exp.

Good Morning

Risk appetite improved further on Friday as US CPI proved to be not as high as some had feared and more tentative evidence emerged suggesting Omicron might result in relatively mild illness. The S&P500 jumped 1% to a new record close while oil prices were up 1%, capping off an 8% gain for the week. Bond yields were slightly lower and the USD slightly softer after the CPI release, although the firm consensus is still that the Fed will announce an accelerated tapering pace at its meeting later this week. The NZD continues to hover around the 0.68 mark.

The US CPI report for November confirmed that inflation pressures remain intense, with headline inflation hitting an eyewatering 6.8% y/y, its highest level since 1982, and core inflation jumping to 4.9%, its highest level since the early 1990s. Both numbers were in-line with the Bloomberg median estimate. While supply chain issues are still having a major impact (for instance, the price of new cars was up a record 11% over the past 12 months), there are growing signs of broadening and more persistent inflationary pressures emerging. For instance, Shelter inflation, which accounts for around 40% of the core index and is considered a 'stickier' form of inflation, increased to a 14-year high of 3.9% y/y, with leading indicators pointing to further increases over the coming year.

Alternative core inflation measures, which aim to strip out noisy categories to show the underlying trend, paint a similar picture. The Cleveland Fed's trimmed mean measure was up 4.5% y/y and its median CPI measure 3.5%, both their highest levels since the early 1990s. Strong wage growth is adding to inflationary pressure, with the Atlanta Fed's Wage Growth Tracker 4.3% higher over the past 12 months, near its highest level since 2002.

Analysts think core inflation could peak above 6% early next year before the long-anticipated easing of supply chain disruptions is expected to see annual inflation moderate later next year, although it is likely to be some time before it converges on the Fed's 2% target.

For the Fed, the CPI report should seal the deal for a faster tapering of its bond buying. At its meeting later this week, the Fed is widely expected to announce a doubling of its tapering pace, from $15b per month to $30b per month, which would see new bond purchases stop in March next year, rather than June. An earlier end to QE opens the door to earlier Fed rate hikes. With a faster taper seen as all but a done deal this week, the focus at the Fed meeting this week is likely to be on how many rate hikes Fed officials forecast for next year.

US rates and the USD were lower on Friday, suggesting investors were braced for an even stronger inflation result than the median forecast. Market nerves were understandable considering headline CPI had exceeded economists' forecasts in seven of the previous eight months. The US 10-year rate was 2bps lower, to 1.48%, while the 2-year rate dropped 3bps, with the market slightly dialling back its expectations for Fed rate hikes next year. The market fully prices the first hike by June, with close to three hikes expected by the end of next year. Slightly lower Fed rate expectations fed through to the USD, with the BBDXY index down 0.2% on Friday.

Investors' relief around the US CPI release and some tentatively encouraging news around Omicron (see below) saw US equity markets move higher on Friday. The S&P500 was up 1%, taking its gain on the week to a chunky 3.8% and leaving it at a record high closing level. Meanwhile, the VIX closed below 20 for the first time since Omicron made headlines. Low rates remain a supportive factor for equities, for now at least, with the US 10-year real yield sitting below -1%.

Initial data on Omicron cases continue to trickle in, suggesting the variant is more transmissible than Delta but might lead to milder illness. The US CDC reported that most of the 43 cases it had investigated had resulted in mild illness, albeit in mainly vaccinated, younger people. In the UK, where Omicron is expected to surpass Delta as the dominant variant this week, a government study showed that a booster shot lifted protection against symptomatic infection to 70-75%. Both studies cautioned that it was too early to make definitive conclusions about the severity of the variant. Over the weekend, the UK Health Minister warned of a "big wave coming" which could put pressure on the health system, even if Omicron were half as severe as Delta. The market has seemingly taken a 'glass half full' view of Omicron developments over the past week, presumably on optimism that it might lead to milder illness than Delta. Oil prices were up 1% on Friday, and 8% on the week, symptomatic of improving global growth expectations.

Currency moves were relatively modest on Friday, despite some volatility around the US CPI release. The USD indexes were around 0.2% weaker on the day as the market slightly pared back its Fed rate hike expectations. Investors remain generally upbeat on the USD, with futures positioning showing speculative investors are holding their largest net long position in over two years while a Bank of America survey reported investors were their most bullish on the USD since 2015.

Commodity currencies were little moved on Friday but stronger on the week, reflecting better global growth expectations and firmer risk appetite. The AUD and NOK were around 2.5% higher last week, with the NZD lagging behind with just a 0.7% gain. The NZD continues to hover around the 0.68 mark while the NZD/AUD cross continues to trend down, closing at its lowest level in two months, at around 0.9475.

A day after it lifted foreign currency reserve requirements in a bid to cool the appreciation in the CNY, the PBOC set the daily CNY fixing on Friday at its weakest level compared to market estimates since at least 2018, according to Bloomberg. The PBOC can use the daily fixing to signal its currency views to market participants, with inference being that it would prefer the CNY's appreciation to slow down. The CNY was 0.1% stronger on Friday, despite the PBOC's latest move, and it remains close to its highest level in 3½ years.

NZ rates were lower on Friday, by around 3bps across the swaps curve, in quiet market conditions. There is a bit to focus on domestically for the market this week (besides all the offshore central bank meetings), before trading activity really dies down into Christmas. Wednesday sees the release of the Half-Year Economic and Fiscal Update (HYEFU) and accompanying bond programme update. We think the current fiscal year's bond programme, which has six months left, it likely to remain at $30b, although future years could see some reduction to forecast issuance given the stronger fiscal baselines. Thursday sees the release of Q3 GDP, where we have pencilled in a 4% fall, which would be much better than the RBNZ's -7% MPS forecast. Also on the agenda this week are the ANZ business survey and the REINZ housing report, with the latter of some interest amidst growing anecdotes of a slowdown in the market.

It's a big week of central bank meetings offshore. Besides the Fed, the BoE is meeting, where the market prices around a 35% chance of a 15bps rate hike, while the ECB is expected to give guidance around what it will do with QE when its pandemic bond buying programme finishes in March. In Australia, our NAB colleagues expect a record 280k employment gain in November, as NSW and Victoria emerged from lockdown.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Performance Services Index (PSI)	Nov		44.6	10:30
NZ	Net Migration	Oct		653	10:45
JN	Tankan Large Mfg Index	Q4	19	18	12:50

Source: Bloomberg, BNZ

Foreign Exchange

Indicative overnight ranges (*)

	Last	% Day	Low	High
NZD	0.6796	+0.0	0.6770	0.6807
AUD	0.7172	+0.3	0.7143	0.7182
EUR	1.1313	+0.2	1.1265	1.1324
GBP	1.3273	+0.4	1.3187	1.3276
JPY	113.44	-0.0	113.23	113.79
CAD	1.2722	+0.1		
NZD/AUD	0.9476	-0.3		
NZD/EUR	0.6007	-0.2		
NZD/GBP	0.5120	-0.4		
NZD/JPY	77.09	-0.0		
NZD/CAD	0.8646	+0.1		
NZ TWI	73.03	-0.1		

Other FX

	Last	% Day
CHF	0.9213	-0.2
SEK	9.054	-0.1
NOK	8.949	-0.5
HKD	7.799	+0.0
CNY	6.370	-0.1
SGD	1.365	-0.0
IDR	14,371	+0.0
THB	33.56	-0.1
KRW	1,181	+0.6
TWD	27.74	+0.1
PHP	50.36	+0.1

Equities

Major Indices

	Last	% Day	% Year
S&P 500	4,712	+1.0	28.5
Dow	35,971	+0.6	19.9
Nasdaq	15,631	+0.7	26.0
Stoxx 50	4,199	-0.2	20.5
FTSE	7,292	-0.4	11.4
DAX	15,623	-0.1	19.1
CAC 40	6,992	-0.1	26.9
Nikkei	28,438	-1.0	6.7
Shanghai	3,666	-0.2	9.5
ASX 200	7,354	-0.4	10.7
NZX 50	12,850	+0.6	-0.5

Commodities**

Price

	Last	Net Day
Oil (Brent)	75.15	+1.1
Oil (WTI)	71.67	+1.4
Gold	1782.9	+0.3
HRC steel	1606.0	-0.2
CRB	225.9	+0.2
Wheat Chic.	785.3	+1.1
Sugar	19.71	+0.1
Cotton	106.23	-0.3
Coffee	232.6	-3.2
WM powder	4200	+0.2

Australian Futures

3 year bond	98.914	0.00
10 year bond	98.35	0.01

Interest Rates

	Rates	Swap Yields		
	Cash	3Mth	2 Yr	10 Yr
USD	0.25	0.20	0.87	1.57
AUD	0.10	0.06	0.91	1.92
NZD	0.75	0.89	2.23	2.57
EUR	0.00	0.06	-0.36	0.11
GBP	0.10	0.09	0.98	0.99
JPY	-0.03	-0.08	0.00	0.11
CAD	0.25	0.50	1.50	1.98

Benchmark 10 Yr Bonds

	Last	Net Day
USD	1.48	-0.02
AUD	1.64	-0.04
NZD	2.47	-0.03
GER	-0.35	0.01
GBP	0.74	-0.01
JPY	0.06	0.01
CAD	1.47	-0.05

NZ Government Bonds

	Last	
NZGB 5 1/2 04/15/23	1.54	0.00
NZGB 0 1/2 05/15/26	2.30	-0.03
NZGB 0 1/4 05/15/28	2.37	-0.02
NZGB 1 1/2 05/15/31	2.41	-0.02
NZGB 2 05/15/32	2.47	-0.03
NZGB 1 3/4 05/15/41	2.84	-0.02
NZGB 2 3/4 05/15/51	2.89	-0.02

NZ Swap Yields

	Last	
1 year	1.68	-0.00
2 year	2.23	-0.03
5 year	2.53	-0.03
7 year	2.55	-0.03
10 year	2.58	-0.03
15 year	2.60	-0.03

* 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

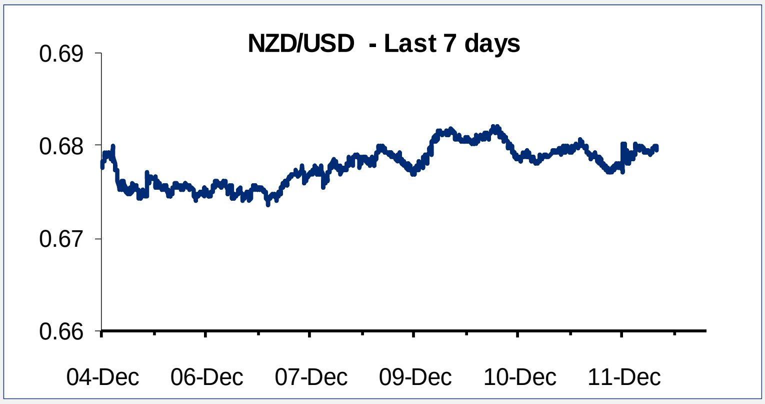
11/12/2021	NY close	Prev. NY close
USD	0.6796	0.6795
GBP	0.5120	0.5140
AUD	0.9476	0.9505
EUR	0.6007	0.6017
JPY	77.09	77.12
CAD	0.8646	0.8638
CHF	0.6261	0.6276
DKK	4.4665	4.4740
FJD	1.4469	1.4415
HKD	5.3001	5.2982
INR	51.50	51.32
NOK	6.0816	6.1111
PKR	120.40	120.36
PHP	34.23	34.17
PGK	2.3972	2.3800
SEK	6.1532	6.1576
SGD	0.9276	0.9275
CNY	4.3291	4.3336
THB	22.75	22.75
TOP	1.5403	1.5346
VUV	76.79	76.78
WST	1.7613	1.7599
XPF	72.04	71.94
ZAR	10.8574	10.8308

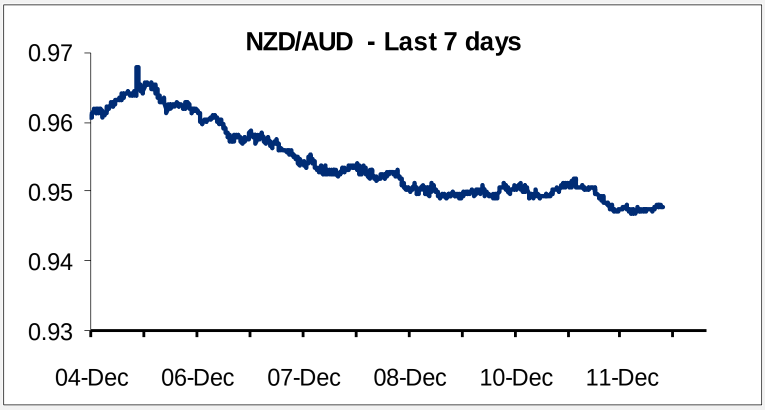
NZD/USD Forward Points

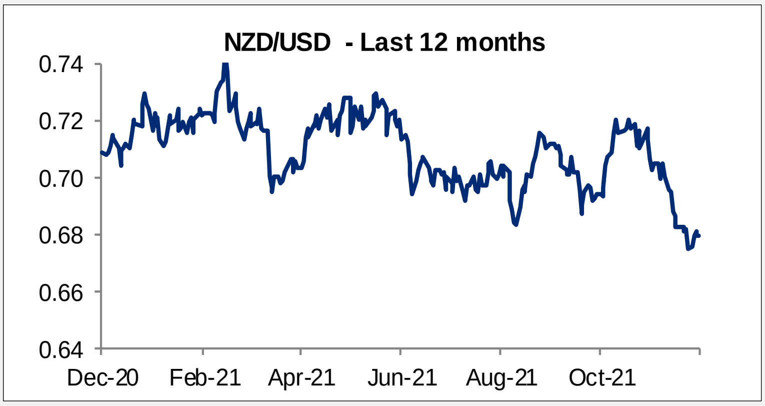
	BNZ buys NZD	BNZ sells NZD
1 Month	-2.64	-1.88
3 Months	-9.66	-9.15
6 Months	-27.54	-25.89
9 Months	-51.24	-48.69
1 Year	-77.34	-74.83

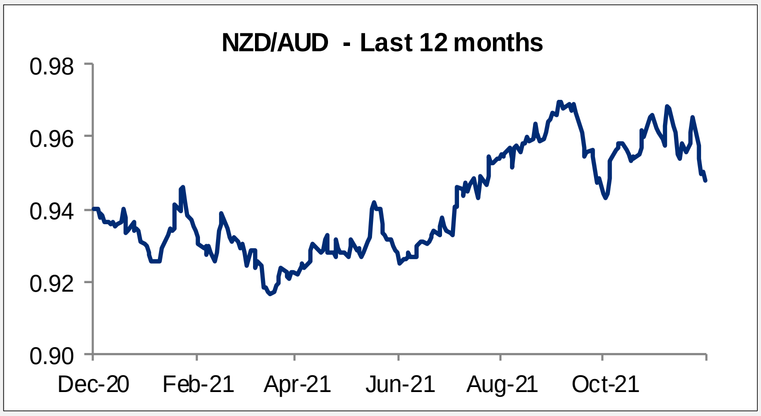
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.49	-5.90
3 Months	-18.07	-16.46
6 Months	-44.65	-40.65
9 Months	-76.81	-71.43
1 Year	-109.00	-102.27









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