Markets Today

13 **May** 2022

Events Round-Up

NZ: REINZ house sales (y/y%), Apr: -35.2 vs. -33.5 prev.

NZ: Food prices (m/m%), Apr: 0.1 vs. 0.7 prev.

NZ: 2yr inflation expectations (%), Q2: 3.29 vs. 3.27 prev.

UK: GDP (q/q%), Q1: 0.8 vs. 1 exp.

US: PPI ex food and energy (y/y%), Apr: 8.8 vs. 8.9 exp.

US: Initial jobless claims (k), 7-May: 203 vs. 193 exp.

Good Morning

Markets remain firmly in risk-off mode as concerns grow that the global economy is heading towards a recession. The unfolding energy crisis in Europe, concerns that Beijing could be plunged into lockdown at any point, and expectations of aggressive rate hikes from central banks are all weighing on sentiment. Equity markets continue to tumble, with the S&P500 down another 1.8% overnight, to now be on cusp of a bear market, while industrial commodity prices and global rates have fallen sharply on global growth fears. The EUR has plunged more than 1%, to near its lowest level since 2003, amidst the escalating energy crisis in Europe while the NZD and AUD have both tumbled to fresh lows. Yesterday saw the market pare back OCR rate hike expectations after the RBNZ's inflation expectations series didn't increase by as much as feared.

Risk sentiment remains very negative as investors brace for significant monetary policy tightening into a major global growth slowdown. All major equity markets are down sharply again overnight, by around 1.8% on the S&P500 and NASDAQ and almost 1% on the EuroStoxx 600 index. Copper, often seen as a barometer of global growth, was down 2.7% overnight, while other metals prices were also materially lower (iron ore futures -4.5%). After their steep run-up over recent months, bond yields have finally woken up to the growing recession risks, with 10-year rates tumbling 10bps in the US, to 2.82%, and 15-18bps in Europe. US rates are now lower than what they were before yesterday's CPI release, with a growing chorus of commentators suggesting the Fed may need to cause a recession to get inflation under control.

European natural gas futures surged 12% overnight, having been up as much as 23% at one point, after Russia implemented sanctions on European energy companies, raising fears that Russia could tighten the screws on gas supply to the region. Germany said the sanctions would see gas supplies from Russia reduced by around 3%, which it described as manageable, although the move was interpreted by markets as a warning that Russia was serious in its threats to restrict energy supplies. Among the companies sanctioned was a Polish company that owns a section of gas pipeline that is sometimes relied up during periods of high demand. Meanwhile, Finland said it would apply for Nato membership "within days" while Sweden's government was expected to make a decision over the weekend, moves that are likely to further rile Russia. Forward looking indicators, such as the German ZEW survey, suggest the region is already on the brink of recession, before ones considers the prospect of ECB rate hikes, expected to kick off from July, and the risk of major energy shortages. The parity calls for the EUR are growing louder by the day, with the currency falling a massive 1.6% over the past 24 hours to around 1.0370, near its lowest level since 2003.

Meanwhile, rumours continue to circulate that Beijing may be thrown into lockdown any day. City officials eventually issued a formal denial of the lockdown rumours and said people didn't need to horde food supplies. However, they requested people in 12 of the 16 city districts "reduce movements" and work from home on Friday. Despite Chinese officials' pledge to provide fiscal stimulus, including infrastructure spending, the market remains unimpressed by the policy response. Against this backdrop, the CNY remains under pressure, with USD/CNH jumping more than 1% over the past 24 hours to around 6.8280, its highest level since September 2020.

Adding to the risk off mood, there was a meltdown in the cryptocurrency space, after the dramatic implosion of Terra's UST, a so-called 'stablecoin' which was supposed to maintain a 1-for-1 peg with the USD, pummelling confidence in the sector. Tether, the world's largest stablecoin, with around US$80b outstanding, which is also supposed to be pegged to the dollar, briefly traded below 96 cents, before recovering back above 99 cents. Central banks have been warning about the financial stability risks of stablecoins for some time, drawing parallels to the run on money market funds in the leadup to the GFC. Bitcoin plummeted more than 10% at one point, hitting its lowest level since late 2020, although it has since recovered to be back above $28,000. In general, the speculative corners of the market, be it cryptocurrencies or high-risk tech stocks, are under major downward pressure.

US inflation expectations have reversed their post-CPI moves higher, with the US 10-year breakeven inflation rate falling 14bps, to a 2½-month low of 2.60%. The fall in inflation expectations, coming despite a modest increase in oil prices overnight, is also consistent with the market factoring in greater risk of recession.

The USD and JPY have appreciated sharply amidst rising risk aversion and growing fears for the global economy. The DXY index has hit a fresh 20-year high, just under 105, while the JPY has reasserted its safe haven credentials, with USD/JPY falling 1.3% from this time yesterday, to just above 128. The NZD and AUD, which are typically highly sensitive to global growth, have unsurprisingly come under significant downward pressure, with both currencies printing fresh lows. The NZD is down around 1.3% from this time yesterday, at around 0.6220, while the AUD is down 1.7%, to around 0.6830. NZD/JPY is off more than 2.5% amidst the risk-off backdrop, falling back below 80.

The market's OCR expectations were pared back yesterday after the RBNZ's 2-year inflation expectations series showed a smaller jump than seemingly feared. 2-year ahead inflation expectations nudged up to 3.29% in Q2 from 3.27% previously, something of a surprise given the series is usually highly correlated to movements in headline inflation. 5-year inflation expectations increased to 2.42%, from 2.30% previously, a new high for this now five-year old series.

Market pricing for the peak in the OCR has come down over the past week from around 4.25% to around 3.85% now. The market, which not so long ago was pricing a small chance of a 75bps RBNZ hike later this month, is now pricing around an 85% chance of a 50bps hike at the May meeting. Rates were 10bps lower across the curve, outperforming (ie. falling by more than) Australian and US rates, with the 2-year swap rate closing the day at to 3.65%. Just last week the 2-year swap rate got as high as 3.995%. NZ rates are likely to extend these falls today, with Australian bond futures 12-16bps lower in yield since the NZ market close.

Meanwhile, the downturn in the NZ housing market continues, with REINZ data showing house prices fell another 1.1% in the month of April (using our seasonal adjustment), bringing the cumulative fall since November to 5.5%. This trend has some way to go yet. We are expecting a peak-to-trough fall in house prices of 10%-15%, with the risks skewed towards an even larger price correction given the growing risk of recession next year. While not a market-mover per se, the housing market slowdown adds weight to the argument that the market is likely pricing in more tightening for the RBNZ than is likely to be delivered.

The NZ Manufacturing PMI, which has stabilised above 50 over the past six months, is released this morning. Across the ditch, RBA Deputy Governor Bullock is speaking this afternoon and, given there is a Q&A, there may be some market-relevant comments on the policy outlook. The University of Michigan consumer confidence index is the only data of note tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
US	Fed's Daly Takes Part in Moderated Discussion				08:00
NZ	Manufacturing PMI	Apr		53.8	10:30
AU	RBA's Bullock-Panel				14:00
US	Uni. of Mich. Sentiment	May P	64	65.2	02:00

Source: Bloomberg, BNZ

Foreign Exchange

Indicative overnight ranges (*)

	Last	% Day	Low	High
NZD	0.6220	-1.3	0.6218	0.6267
AUD	0.6832	-1.5	0.6829	0.6901
EUR	1.0369	-1.4	1.0354	1.0505
GBP	1.2176	-0.6	1.2166	1.2248
JPY	128.15	-1.4	127.52	129.32
CAD	1.3072	+0.6		
NZD/AUD	0.9104	+0.4		
NZD/EUR	0.5999	+0.1		
NZD/GBP	0.5108	-0.6		
NZD/JPY	79.71	-2.7		
NZD/CAD	0.8131	-0.7		
NZ TWI	70.50	-0.6		

Other FX

	Last	% Day
CHF	1.0045	+1.0
SEK	10.161	+0.9
NOK	9.901	+1.6
HKD	7.850	+0.0
CNY	6.786	+1.0
SGD	1.398	+0.6
IDR	14,598	+0.3
THB	34.75	+0.3
KRW	1,289	+1.1
TWD	29.85	+0.5
PHP	52.48	+0.4

Equities

Major Indices

	Last	% Day	% Year
S&P 500	3,866	-1.8	-4.9
Dow	31,271	-1.8	-6.9
Nasdaq	11,157	-1.8	-14.4
Stoxx 50	3,613	-0.9	-8.5
FTSE	7,233	-1.6	3.3
DAX	13,740	-0.6	-9.3
CAC 40	6,206	-1.0	-1.2
Nikkei	25,749	-1.8	-6.2
Shanghai	3,055	-0.1	-10.9
ASX 200	6,941	-1.8	-0.6
NZX 50	11,177	-0.5	-10.1

Commodities**

Price

	Last	Net Day
Oil (Brent)	107.76	+0.3
Oil (WTI)	106.38	+0.7
Gold	1820.8	-1.8
HRC steel	1380.0	-1.0
CRB	304.9	+2.6
Wheat Chic.	1170.0	+5.1
Sugar	18.64	+0.4
Cotton	145.53	+1.1
Coffee	215.3	-2.1
WM powder	3765	-2.3

Australian Futures

3 year bond	97.125	0.23
10 year bond	96.66	0.14

Interest Rates

Rates

	Cash	3Mth
USD	1.00	1.42
AUD	0.35	0.98
NZD	1.50	2.15
EUR	0.00	0.06
GBP	1.00	1.24
JPY	-0.03	-0.02
CAD	1.00	1.94

Swap Yields

	2 Yr	10 Yr
USD	2.81	2.91
AUD	2.94	3.61
NZD	3.64	3.96
EUR	0.78	1.65
GBP	2.00	1.74
JPY	0.10	0.43
CAD	3.06	3.34

Benchmark 10 Yr Bonds

	Last	Net Day
USD	2.82	-0.10
AUD	3.43	-0.08
NZD	3.70	-0.06
GER	0.84	-0.15
GBP	1.66	-0.17
JPY	0.25	0.00
CAD	2.89	-0.11

NZ Government Bonds

	Last	
NZGB 5 1/2 04/15/23	2.73	-0.07
NZGB 0 1/2 05/15/26	3.50	-0.08
NZGB 0 1/4 05/15/28	3.59	-0.08
NZGB 1 1/2 05/15/31	3.67	-0.06
NZGB 2 05/15/32	3.70	-0.06
NZGB 1 3/4 05/15/41	3.85	-0.06
NZGB 2 3/4 05/15/51	3.91	-0.06

NZ Swap Yields

	Last	
1 year	3.17	-0.10
2 year	3.64	-0.10
5 year	3.86	-0.10
7 year	3.91	-0.10
10 year	3.96	-0.11
15 year	3.94	-0.10

* 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 06:52

Source: Bloomberg

NZD exchange rates

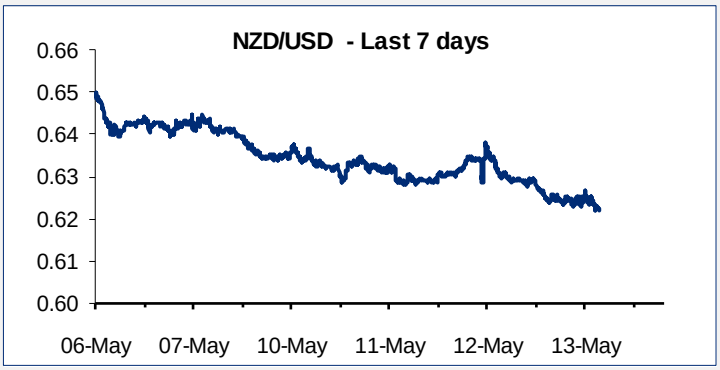
13/05/2022	6:52 a.m.	Prev. NY close
USD	0.6220	0.63
GBP	0.5108	0.5142
AUD	0.9104	0.9080
EUR	0.5999	0.5993
JPY	79.71	81.88
CAD	0.8131	0.8185
CHF	0.6248	0.6265
DKK	4.4635	4.4578
FJD	1.3682	1.3783
HKD	4.8827	4.9455
INR	48.16	48.71
NOK	6.1587	6.1424
PKR	119.12	119.42
PHP	32.64	33.00
PGK	2.1871	2.2183
SEK	6.3200	6.3455
SGD	0.8697	0.8754
CNY	4.2211	4.2347
THB	21.60	21.81
TOP	1.4332	1.4479
VUV	72.66	73.55
WST	1.6520	1.6316
XPF	70.80	71.33
ZAR	10.0401	10.1361

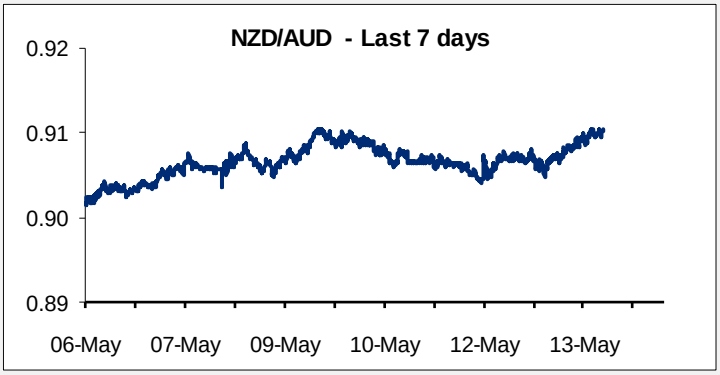
NZD/USD Forward Points

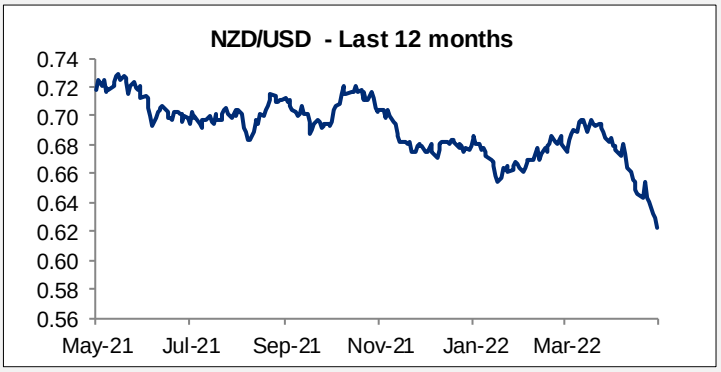
	BNZ buys NZD	BNZ sells NZD
1 Month	-2.97	-2.57
3 Months	-6.98	-6.20
6 Months	-16.11	-14.21
9 Months	-24.43	-21.61
1 Year	-32.90	-29.90

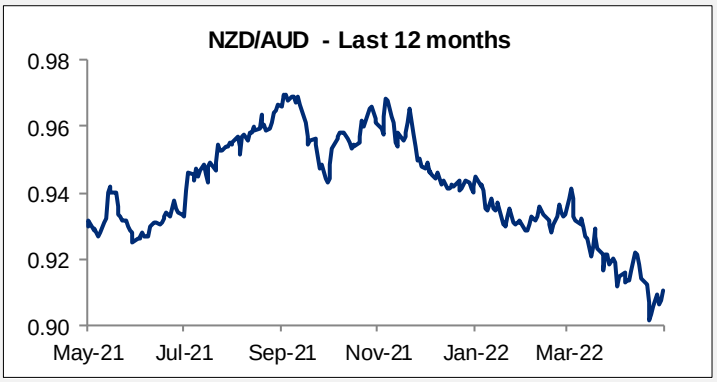
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.40	-7.54
3 Months	-24.16	-22.36
6 Months	-42.91	-38.78
9 Months	-50.36	-44.20
1 Year	-52.02	-44.92









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