

13 October 2021



Events Round-Up

NZ: ANZ Truckometer (m/m%), Sep: 13.4 vs. -18.1 prev.
 NZ: Retail card spending (m/m%), Sep: 0.9 vs. -19.8 prev.
 AU: NAB business conditions, Sep: 5 vs. 14 prev.
 UK: Unemployment rate (%), Aug: 4.5 vs. 4.5 exp.
 UK: Employment change (3m/3m, k), Aug: 235 vs. 250 exp.
 GE: ZEW survey expectations, Oct: 22.3 vs. 23.5 exp.
 US: NFIB small business optimism, Sep: 99.1 vs. 99.5 exp.
 US: JOLTS job openings (k), Aug: 10,439 vs. 10,954 exp.

Good Morning

Market movements have been subdued overnight. Equities are flat-to-slightly lower, the US 10-year rate has stabilised, while the USD continues to push higher. The market awaits the US CPI release tonight amidst growing global inflation concerns and increased recognition amongst central bankers around upside inflation risks. Yesterday saw fresh multi-year highs in NZ swap rates across the curve, with the key 2-year rate pushing above 1.50%.

Comments from Fed officials overnight have seemed to confirm the market's view that tapering will formally be announced next month, despite the disappointing jobs number in Friday's payrolls report. Vice Chair Clarida said the conditions for tapering had been "all but met" while Atlanta Fed President Bostic said in an interview he would be comfortable starting in November, adding "the sooner we get moving on that the better." Both officials warned of upside inflation risks and said they were closely watching measures of inflation expectations, with Bostic highlighting the risk that current inflation "pressures could grind on long enough to unanchor expectations". In its semi-annual World Economic Update, the IMF echoed these concerns, with the fund advising central banks to move quickly if "the risks of rising inflation expectations become tangible", even if employment was still weak.

On that note, the New York Fed's 3-year ahead inflation expectations series released overnight picked up to 4.2%, its highest level since the survey started in 2013. That chimes with the increase in market-based measures of inflation expectations over recent months, which have seen 10-year inflation swaps reach multi-year highs in the US, Europe and the UK.

Meanwhile, signs of tightness in the US labour market abound, despite the unemployment rate remaining well above pre-Covid levels. The 'quits rate', one of former Fed Chair Yellen's favourite labour market indicators, picked up to 2.9%, its highest level on record, and likely reflective of employees moving on for higher wage opportunities elsewhere. Meanwhile, the NFIB survey showed a record 30% of small businesses reported their intention to raise wages, a record for a series that dates back to 1983, even as headline confidence in the survey fell to its lowest level since April 2020. And while job openings fell back last month, they remain at exceptionally high levels, indicative of very strong employment demand among US businesses.

After its recent strong run higher, the US 10-year rate has fallen back 3bps overnight to 1.58%, helped by strong demand at an auction a few hours ago. However, the market continues to bring forward the expected timing of Fed rate hikes, with the first 25bps move now fully priced for November next year, with July seen as around a 50% chance. This has seen the 2-year US rate push 3bps higher, to 0.35%, its highest level since March last year. In Europe, the German 10-year closed at a 2-½ year high of -0.09%, 3bps higher on the day.

US equity markets have shown little movement overnight, the S&P500 down a modest 0.1%, the NASDAQ unchanged and the EuroStoxx index down less than 0.1%.

Energy markets remain a market focus, although movements have been more muted over the past 24 hours. Crude oil prices are largely unchanged overnight, with WTI futures hovering near a seven-year high, while gas prices in Europe are little changed. The exception has been coal prices in China, with futures there up another 7%, bringing its increase since the start of September to almost 90% amidst an energy shortage in the country. The FT reported on renewed investor interest and a recent price surge in uranium, which is used to power commercial nuclear plants.

The USD remains on the front foot amidst the increase in Fed rate hike expectations. The DXY index, which has a heavy weighting towards the euro, has traded up to 13-month high overnight while the BBDXY continues to hover just below its year-to-date highs. The EUR has fallen to its lowest level since July last year, at around 1.1525, while USD/JPY continues to press higher, up 0.3% overnight to a fresh multi-year high of 113.65. The GBP hasn't been

much affected by the ongoing dispute between the UK and EU around the Northern Ireland protocol, with the UK pushing for a change that could potentially lead to the imposition of tariffs (probably the last thing the UK economy needs right now).

Commodity currencies have fared better, with the NOK and CAD slightly higher on the day and the NZD and AUD little changed over the past 24 hours. The NZD trades this morning around 0.6935.

Turning to domestic developments, it was more of the same in the domestic rates market yesterday, with NZ swap rates across the curve setting new multi-year highs. The 2-year swap rate was 5bps higher on the session, to 1.54%, with the market now all but pricing the OCR to reach 2% by the end of 2023.

The domestic rates market may have one eye on the NZ CPI release next week, with all indications being that it is likely to be a huge print. We are looking for a 1.6% *quarterly* increase in headline CPI, taking the annual rate of inflation to 4.3%. What's more, the risks, if anything, are to the upside, such that a 5% annual reading can't be ruled out. For the RBNZ, which has already explicitly said it expects a 4%+ reading for headline inflation, the core measures of inflation will be important in judging the degree of underlying inflationary pressure and its likely persistence. All measures of core inflation were above the 2% midpoint in the Q2 data.

In other news, yesterday's release of the government's accounts confirmed a much stronger fiscal position at the end of June, a by-product of the strength in the NZ economy in the year to June 2021. The government's cash deficit was some \$11.5b lower than Treasury had forecast in May which, combined with the remaining \$4.7b underspend on the Covid Recovery Fund, should give the government ample capacity to provide support to the economy in the coming months without necessarily

needing to resort to the market for more funding. The government's net debt to GDP ratio, which stood at 30.1% in June, remains much lower than most advanced economy peers.

All eyes will be on the US CPI release tonight amidst these renewed inflationary concerns amongst market participants. Headline inflation is expected to remain near its highest level in more than a decade, at 5.3% y/y, while core inflation, which is typically the major focus for the market, is expected to remain unchanged at 4%. The market will also be closely watching BoE Deputy Governor Cunliffe's speech tonight for any signals around his policy intentions. The market is pricing a better than even chance of a 15bps BoE rate hike at its upcoming meeting next month.

Domestically, the focus is on the preliminary release of the ANZ Business survey for October. We will be keenly watching the pricing intentions indicator after the puzzling falls seen in last week's QSBO.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Food Prices (m/m%)	Sep		0.3	10:45
NZ	ANZ Activity Outlook	Oct P		18.2	13:00
NZ	ANZ Business Confidence	Oct P		-7.2	13:00
UK	Monthly GDP (3m/3m%)	Aug	3	3.6	19:00
EC	Industrial Production (m/m%)	Aug	-1.7	1.5	22:00
US	CPI (m/m%)	Sep	0.3	0.3	01:30
US	CPI Ex Food and Energy (m/m%)	Sep	0.2	0.1	01:30
US	CPI (y/y%)	Sep	5.3	5.3	01:30
US	CPI Ex Food and Energy (y/y%)	Sep	4	4	01:30
UK	BOE's Cunliffe Speaks.				03:30

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)				Other FX		Major Indices			Price						
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6938	-0.0	0.6924	0.6970	CHF	0.9309	+0.3		S&P 500	4,358	-0.1	23.3	Oil (Brent)	83.48	-0.2
AUD	0.7355	+0.1	0.7344	0.7385	SEK	8.784	+0.2		Dow	34,488	-0.0	19.6	Oil (WTI)	80.72	+0.3
EUR	1.1528	-0.2	1.1524	1.1570	NOK	8.558	-0.4		Nasdaq	14,492	+0.0	22.0	Gold	1758.3	+0.3
GBP	1.3587	-0.1	1.3569	1.3637	HKD	7.782	+0.0		Stoxx 50	4,055	-0.4	23.0	HRC steel	1899.0	+0.1
JPY	113.65	+0.3	113.00	113.79	CNY	6.449	-0.0		FTSE	7,130	-0.2	18.8	CRB	236.3	+0.4
CAD	1.2454	-0.2			SGD	1.357	+0.1		DAX	15,147	-0.3	15.3	Wheat Chic.	748.3	+0.4
NZD/AUD	0.9433	-0.1			IDR	14,218	+0.1		CAC 40	6,548	+0.6	31.5	Sugar	20.07	-1.2
NZD/EUR	0.6018	+0.2			THB	33.31	-1.1		Nikkei	28,231	-0.9	19.6	Cotton	107.24	-2.3
NZD/GBP	0.5106	+0.0			KRW	1,199	+0.3		Shanghai	3,547	-1.2	5.6	Coffee	213.2	+4.6
NZD/JPY	78.85	+0.3			TWD	28.16	+0.3		ASX 200	7,281	-0.3	17.5	WM powder	3835.0	+0.0
NZD/CAD	0.8641	-0.2			PHP	50.85	+0.1		NZX 50	12,996	-0.2	4.4	Australian Futures		
NZ TWI	74.17	-0.0											3 year bond	99.235	-0.03
													10 year bond	98.28	0.05
Interest Rates															
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields					
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last				
USD	0.25	0.12	0.47	1.60	USD	1.58	-0.03	NZGB 5 1/2 04/15/23	1.05	0.02	1 year	1.15	0.01		
AUD	0.10	0.03	0.42	1.80	AUD	1.72	0.00	NZGB 0 1/2 05/15/26	1.62	0.04	2 year	1.54	0.05		
NZD	0.50	0.66	1.54	2.36	NZD	2.10	0.02	NZGB 0 1/4 05/15/28	1.87	0.04	5 year	2.00	0.04		
EUR	0.00	0.06	-0.37	0.30	GER	-0.09	0.04	NZGB 1 1/2 05/15/31	2.10	0.01	7 year	2.16	0.02		
GBP	0.10	0.11	0.91	1.30	GBP	1.15	-0.04	NZGB 2 05/15/32	2.20	0.01	10 year	2.36	0.01		
JPY	-0.04	-0.08	0.01	0.15	JPY	0.09	0.00	NZGB 1 3/4 05/15/41	2.66	-0.01	15 year	2.56	0.01		
CAD	0.25	0.46	1.10	2.06	CAD	1.63	0.01	NZGB 2 3/4 05/15/51	2.84	-0.02					

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

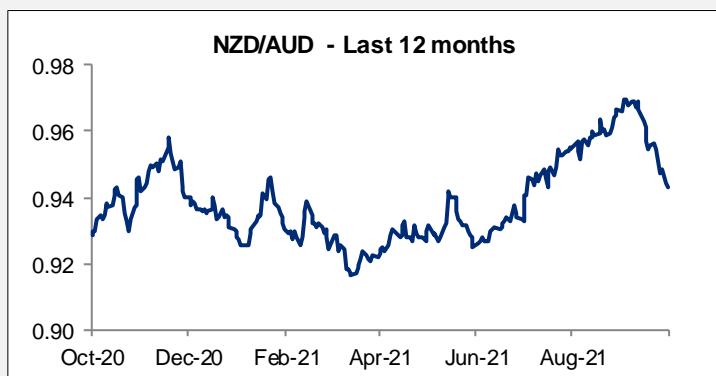
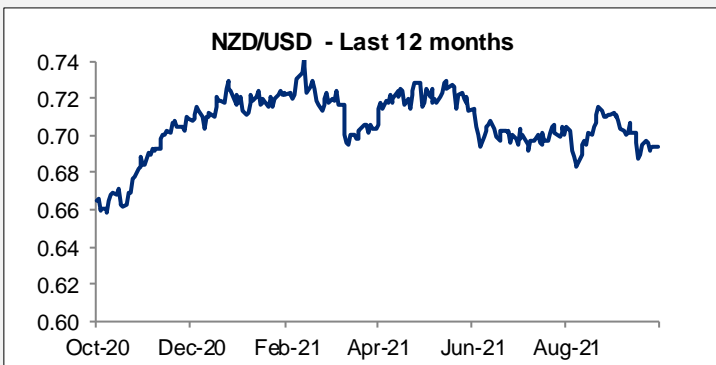
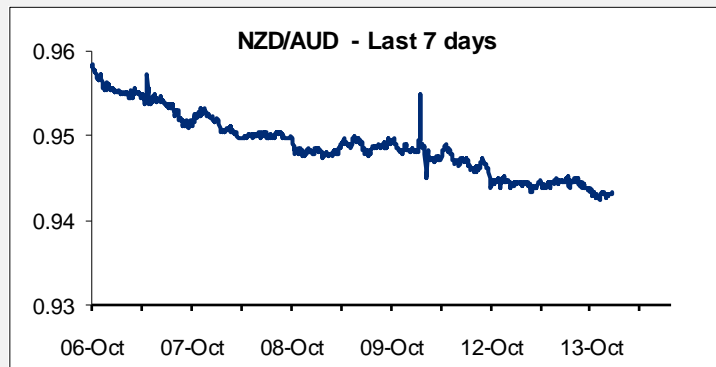
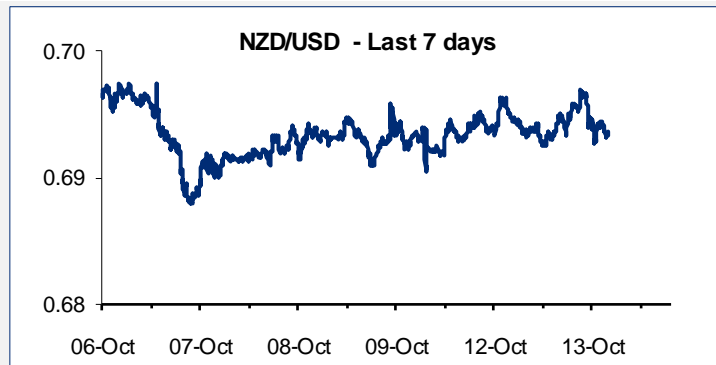
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:51

Source: Bloomberg

NZD exchange rates

13/10/2021	6:51 a.m.	Prev. NY close
USD	0.6938	0.694
GBP	0.5106	0.5105
AUD	0.9433	0.9441
EUR	0.6018	0.6008
JPY	78.85	78.64
CAD	0.8641	0.8663
CHF	0.6459	0.6438
DKK	4.4783	4.4696
FJD	1.4573	1.4571
HKD	5.3988	5.3980
INR	52.39	52.30
NOK	5.9375	5.9603
PKR	118.69	118.20
PHP	35.28	35.24
PGK	2.4344	2.4351
SEK	6.0944	6.0869
SGD	0.9415	0.9404
CNY	4.4742	4.4767
THB	23.20	23.52
TOP	1.5584	1.5564
VUV	77.07	77.23
WST	1.7839	1.7897
XPF	71.45	71.42
ZAR	10.3794	10.4563



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.78	-2.58
3 Months	-8.67	-8.17
6 Months	-21.44	-20.44
9 Months	-39.85	-38.34
1 Year	-61.27	-59.28

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.99	-4.46
3 Months	-16.60	-15.65
6 Months	-35.84	-33.82
9 Months	-61.28	-57.93
1 Year	-90.58	-86.14

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