

14 October 2021



## Events Round-Up

NZ: Food prices (m/m%), Sep: 0.5 vs. 0.3 prev.  
 NZ: ANZ activity outlook, Oct (prelim): 26.2 vs. 18.2 prev.  
 NZ: ANZ business confidence, Oct (prelim): -5.6 vs -7.2 prev  
 UK: Monthly GDP (3m/3m%), Aug: 2.9 vs. 3 exp.  
 CH: Aggregate financing (¥b), Sep: 2900 vs. 3050 exp.  
 EC: Industrial production (m/m%), Aug: -1.6 vs. -1.7 exp.  
 US: CPI (m/m%), Sep: 0.4 vs. 0.3 exp.  
 US: CPI ex food and energy (m/m%), Sep: 0.2 vs. 0.2 exp.  
 US: CPI (y/y%), Sep: 5.4 vs. 5.3 exp.  
 US: CPI ex food and energy (y/y%), Sep: 4 vs. 4 exp.

## Good Morning

The US CPI release was close to market expectations but under the surface there are clear signs of broadening inflation pressure. Yield curves have flattened overnight, with the US 10-year rate down another couple of basis points, to 1.55% while the US 2-year rate is slightly higher on the day. Equity markets are modestly higher. The USD has experienced a pull back after its recent strong move higher, seeing the NZD push up to 0.6960.

US headline CPI was slightly higher than expected, coming in at an annual rate of 5.4% and matching its recent 13-year high. Core inflation was in-line with market expectations, at 4% y/y, with falls in used car prices and airfares (which have been boosted by supply shortages and post-reopening demand respectively) offset by higher rental inflation. The 'shelter' category, which covers rents and so-called owners' equivalent rent and which has a hefty ~40% weighting in core inflation, is now running at an annual rate above 3%. Economists see the trend higher in rental inflation as likely to be more persistent than some of the other categories, like used cars, which may make it more difficult for the Fed to explain away current inflation pressures as simply "transitory".

Reinforcing this message, other measures of core inflation were also higher, with median CPI moving up to 2.8% y/y while the trimmed mean measure, which cuts off outliers at both ends of the price spectrum, is now up to 3.5%, near its highest level since the early 1990s. Even renowned economist Paul Krugman, who has been fighting the "transitory" corner all year, acknowledged the broadening in inflationary pressures and bigger labour supply issues.

The message from the data appears to be that the underlying inflationary pulse is picking up in the US, with wages on the rise amidst a very tight labour market and businesses passing on price rises. Moreover, supply chain issues seem unlikely to be resolved any time soon, with Bloomberg reported that Apple was likely to cut its iPhone production target for this year by as many as 10m units. The FT reported on a huge shortage of truck drivers in Europe, estimated at 400,000 across the region, which has slowed down delivery times.

Yield curve flattening has been the theme overnight. The US 2-year is another 2bps higher, to 0.36%, with the market slightly bringing forward Fed rate hikes, while 10-year rate is down 3bps, to 1.55%. The US 5y30y Treasury curve (i.e. the yield spread between 5-year and 30-year bonds) has flattened 15bps in just two trading sessions and now sits near its lowest level in over a year, at 95bps. Yield curves tend to flatten as tightening cycles approach, with prospective rate hikes pushing up shorter term rates while dampening the growth and inflation outlooks, in turn keeping longer term rates more in check.

Likewise, in the UK, the 2-year rate is slightly higher on the day while the 30-year rate is down a chunky 11bps, to 1.34%. After hitting a 2½-year high yesterday, the German 10-year rate is 4bps lower overnight, to -0.13%.

There hasn't been much reaction to the just released minutes to the September FOMC meeting. Members saw tapering commencing in either mid-November or mid-December if an announcement was made next month, as suggested by Chair Powell at the September meeting, with tapering likely to be completed by mid-2022.

Equity markets have been unperturbed, with modest gains in the S&P500 and NASDAQ overnight (+0.3% and +0.6% respectively). The Financials sector has underperformed on the flattening of the yield curve, with JPM's better than expected earnings overnight not providing any support (JPM's share price was down 2.8%). Several of the other major US banks report after the bell this morning. Tech stocks, whose equity prices often rely more on earnings well into the future, have benefited from the pull back in longer-term rates, leading to outperformance from the NASDAQ.

The USD has taken a breather after its recent strong run, with the DXY index, which hit a 12-month high the

previous night, down by around 0.5%. USD weakness has been broad-based, with losses against all the G10 currencies, despite the (slight) pickup in Fed rate hike expectations. JPY continues to underperform, with USD/JPY sitting above the 113 level, near its highest level since late 2018. The NZD and AUD are both around 0.35% higher over the past 24 hours, with the NZD trading around 0.6955 this morning. The NZD has been locked in a roughly 0.6860 – 0.6980 range over the past two weeks.

In other economic data, Chinese credit growth (so-called 'aggregate financing') was lower than expected in September amidst signs of a slowdown in the real estate sector as Evergrande teeters on the brink of default. The market remains wary about the Chinese growth outlook given risks to the real estate sector as well as the ongoing energy crisis in the country.

The EU has made an offer to reduce border checks on a wide range of goods going from the UK to Northern Ireland in a bid to defuse tensions with the UK. However, the Guardian reported the EU was braced for the UK rejecting the offer, with Boris Johnson's government pushing for a full renegotiation of the protocol. None of this seems to have phased the GBP which is up 0.4% overnight, a similar sized move to the EUR.

In domestic developments, the preliminary release of the ANZ Business Survey for October showed an increase in activity indicators, an impressive result given the ongoing lockdown in Auckland. Perhaps more importantly, the pricing intentions indicator increased to 63.5, a new high for a survey that dates back to the early 1990s, while a net 85% of businesses reported higher costs. The puzzling fall in reported and expected pricing intentions from the QSBO business survey now clearly looks like an outlier, with the ANZ survey suggestive of continued and broad-based inflationary momentum. Relatedly, we revised up our forecast for Q3 CPI on Monday to 1.7% q/q and 4.4% y/y and now see annual inflation peaking at 4.8% in Q4.

Upward pressure remains on the short-end of the NZ curve ahead of next week's CPI release, with the key 2-year swap rate jumping another 3bps yesterday, to 1.57%. The market now prices the OCR to reach 1.7% by the end of next year, almost right on our forecast of 1.75% (which is based on OCR rate hikes at the next two meetings in November and February and quarterly hikes thereafter). It was a different story at the long-end of the yield curve, with the 10-year swap rate falling 3bps, to 2.33%, in

response to the previous night's moves in US Treasuries and Australian bond futures. Yield curve flattening in NZ is likely to continue today given overnight moves.

The government announced an extension of the Level 3 lockdowns in Waikato and Northland for another five days, with a review to take place on Monday, alongside Auckland. Covid-19 cases continue to trend higher, with the seven-day average of new cases up to 43, its highest level since early September. The interest rate market seems much more focused on upside inflation risks and offshore developments than Covid case numbers at present.

The market is likely to ignore the Australian labour market report this afternoon given it predates the reopening of the NSW economy. Job ads on SEEK rebounded 6% in September (20% in NSW) ahead of the easing of restrictions, so employment growth is likely to increase sharply in the coming months. In the UK, the market will be closely listening to a speech by the BoE's Tenreyro, one of the more dovish members of the committee, for any signs that she is starting to show concern about higher inflation. New BoE MPC member Mann also speaks. In China, PPI inflation is expected to ramp up to 10.5% y/y amidst the surge in energy prices, although consumer price inflation is expected to remain very subdued, below 1%. RBNZ Deputy Governor Bascand, who is leaving the RBNZ early next year, speaks on the post-pandemic recovery although his speech is unlikely to be market moving.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA's Debelle Gives Speech at Conference				11:00
NZ	RBNZ's Bascand speech on recovery from the pandemic				11:00
AU	Employment Change (k)	Sep	-110	-146.3	13:30
AU	Unemployment Rate (%)	Sep	4.8	4.5	13:30
CH	CPI (y/y%)	Sep	0.8	0.8	14:30
CH	PPI (y/y%)	Sep	10.5	9.5	14:30
UK	BOE's Tenreyro speaks.				23:10
US	Initial Jobless Claims (k)	9-Oct	320	326	01:30
US	PPI Ex Food and Energy (y/y%)	Sep	7.1	6.7	01:30
UK	BOE's Mann speaks.				03:40

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	0.6956	+0.4	0.6912	0.6964	CHF	0.9248	-0.7		S&P 500	4,362	+0.3	24.2	Oil (Brent)	83.29	-0.2
AUD	0.7375	+0.3	0.7324	0.7382	SEK	8.700	-1.0		Dow	34,390	+0.0	19.9	Oil (WTI)	80.59	-0.1
EUR	1.1584	+0.5	1.1536	1.1593	NOK	8.499	-0.7		Nasdaq	14,562	+0.7	22.7	Gold	1792.0	+1.9
GBP	1.3641	+0.4	1.3588	1.3659	HKD	7.779	-0.0		Stoxx 50	4,083	+0.7	24.5	HRC steel	1894.0	-0.3
JPY	113.45	-0.1	113.23	113.80	CNY	6.428	-0.3		FTSE	7,142	+0.2	19.6	CRB	235.9	-0.2
CAD	1.2439	-0.2			SGD	1.353	-0.3		DAX	15,249	+0.7	17.1	Wheat Chic.	732.3	-2.0
NZD/AUD	0.9432	+0.0			IDR	14,218	+0.0		CAC 40	6,597	+0.7	33.3	Sugar	19.86	-1.1
NZD/EUR	0.6005	-0.2			THB	33.20	-0.4		Nikkei	28,140	-0.3	19.1	Cotton	104.14	-2.1
NZD/GBP	0.5099	-0.1			KRW	1,194	-0.4		Shanghai	3,562	+0.4	6.6	Coffee	208.7	-2.4
NZD/JPY	78.92	+0.2			TWD	28.10	-0.2		ASX 200	7,273	-0.1	17.7	WM powder	3835.0	+0.0
NZD/CAD	0.8653	+0.1			PHP	50.68	-0.3		NZX 50	13,025	+0.2	3.8	<b>Australian Futures</b>		
NZ TWI	74.15	+0.1											3 year bond	99.285	0.05
													10 year bond	98.35	0.07

Interest Rates													
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds	NZ Swap Yields					
	Cash	3Mth	2 Yr	10 Yr	USD	Last		Net Day	Last	Last			
USD	0.25	0.13	0.49	1.56	USD	1.55	-0.03	NZGB 5 1/2 04/15/23	1.05	0.00	1 year	1.19	0.03
AUD	0.10	0.03	0.40	1.75	AUD	1.69	-0.03	NZGB 0 1/2 05/15/26	1.67	0.05	2 year	1.57	0.03
NZD	0.50	0.68	1.54	2.29	NZD	2.13	0.02	NZGB 0 1/4 05/15/28	1.91	0.04	5 year	2.00	0.00
EUR	0.00	0.06	-0.38	0.26	GER	-0.13	-0.04	NZGB 1 1/2 05/15/31	2.13	0.02	7 year	2.14	-0.01
GBP	0.10	0.12	0.94	1.25	GBP	1.09	-0.06	NZGB 2 05/15/32	2.21	0.01	10 year	2.33	-0.03
JPY	-0.05	-0.08	0.01	0.14	JPY	0.09	0.00	NZGB 1 3/4 05/15/41	2.64	-0.02	15 year	2.51	-0.05
CAD	0.25	0.46	1.12	2.03	CAD	1.61	-0.01	NZGB 2 3/4 05/15/51	2.81	-0.02			

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

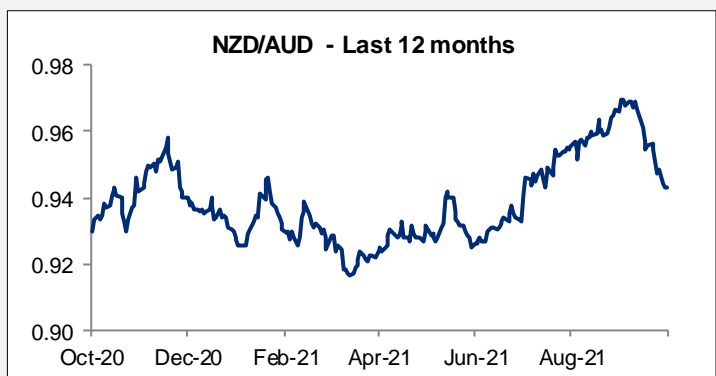
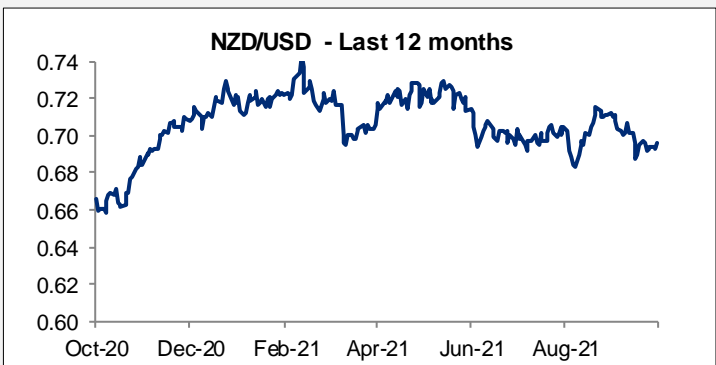
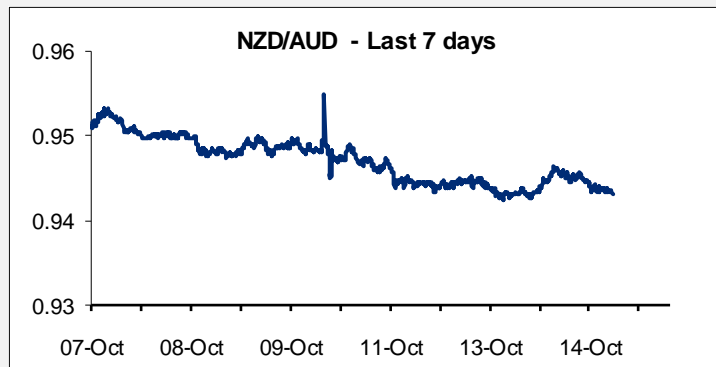
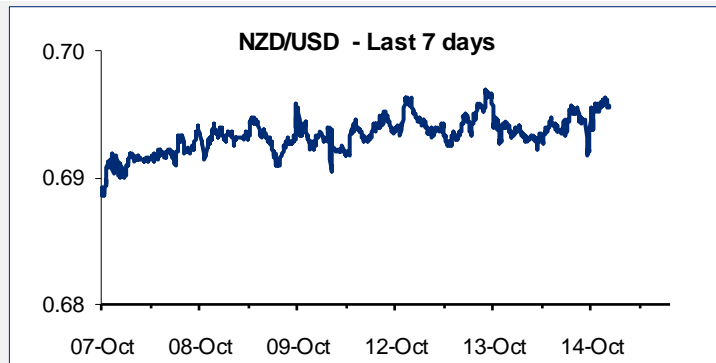
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:16

Source: Bloomberg

## NZD exchange rates

14/10/2021	7:16 a.m.	Prev. NY close
USD	0.6956	0.6931
GBP	0.5099	0.5101
AUD	0.9432	0.9430
EUR	0.6005	0.6011
JPY	78.92	78.74
CAD	0.8653	0.8642
CHF	0.6433	0.6451
DKK	4.4680	4.4726
FJD	1.4589	1.4549
HKD	5.4114	5.3936
INR	52.43	52.34
NOK	5.9120	5.9327
PKR	119.04	118.36
PHP	35.26	35.24
PGK	2.4484	2.4319
SEK	6.0514	6.0912
SGD	0.9410	0.9407
CNY	4.4716	4.4697
THB	23.26	23.49
TOP	1.5603	1.5530
VUV	77.20	77.00
WST	1.7933	1.7803
XPF	71.64	71.40
ZAR	10.3078	10.3823



## NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.67	-2.39
3 Months	-9.08	-8.59
6 Months	-22.30	-21.30
9 Months	-40.66	-39.16
1 Year	-62.61	-60.62

## NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.95	-4.40
3 Months	-17.55	-16.61
6 Months	-37.70	-35.70
9 Months	-63.54	-60.21
1 Year	-94.21	-89.61

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