

15 December 2021



Events Round-Up

- AU: NAB business conditions, Nov: 12 vs. 10 prev.
- UK: Unemployment rate (%), Oct: 4.2 vs. 4.2 exp.
- EC: Industrial production (m/m%), Oct: 1.1 vs. 1.2 exp.
- US: NFIB small business optimism, Nov: 98.4 vs. 98.4 exp.
- US: PPI final demand (y/y%), Nov: 9.6 vs. 9.2 exp.
- US: PPI ex food and energy (y/y%), Nov: 7.7 vs. 7.2 exp.

Good Morning

The market has maintained a cautious tone, ahead of the FOMC update tomorrow morning, with very strong US PPI inflation data adding to jitters. US equities are down over 1%, while US rates have nudged higher. Currency movements have been modest, with the NZD continuing to languish around 0.6750.

In just over 24 hours, the Fed will publish updated forecasts, including interest rate projections. At the last two of these updates, in June and September, projected rate hikes were brought forward and the USD has exhibited upward momentum since, while the more hawkish pivot hasn't prevented US equities from trending higher, or the US 10-year rate from tracking around the historically low 1½% mark. Since those last two updates, inflation has surged into another realm and there is a rising chance that we're witnessing one of the worst policy blunders in modern history. This sets the scene ahead of the meeting and as investors look towards 2022.

After closing at a record high on Friday, there are some evident nerves, with the S&P 500 currently down over 1%, adding to the 0.9% loss yesterday. The Nasdaq index is down about 2%, following yesterday's 1.4% fall. The US rates market shows less angst, with 2 and 10-year rates up 2bps for the day, the latter at 1.44% after touching 1.47% overnight.

US PPI inflation surged further, to a higher than expected 9.6% y/y for final demand and 7.7% for the ex food and energy series. These series have only been in existence since 2010, but the finished goods PPI, which has a longer history, rose by 13.3% y/y, the strongest since 1980. The PPI for processed goods for intermediate demand was up 26.5% y/y (not a typo), indicative of the strength of inflation in the "pipeline". Back in 1980, the Fed Funds and 10-year rate were above 10%, not at the close to zero and

below 1.5% levels currently. The data add to the inflation angst by the market and likely cements in the more hawkish pivot widely expected by the Fed.

Other data released overnight were in line with expectations. Of interest, UK labour market data showed further strength, with workers that had been furloughed having seemingly no trouble finding work, and labour demand out-stripping supply. If not for the surge in Omicron case numbers, a BoE rate hike would be taken as given at the end of the week, but the Bank is widely expected to keep rates steady.

More analysis of Omicron from a South African study of over 200,000 COVID19 cases showed reduced vaccine effectiveness of a two-dose Pfizer regimen from 80% for Delta to 33% for Omicron, but its effect on hospitalisation was less marked, from 93% to 70%. In contrast to adults, children under the age of 18 are 20% more likely to end up in hospital.

Pfizer reported that its anti-viral pill Paxlovid cut the risk of hospitalisation or death by up to 89% in high-risk patients and 70% in standard risk patients, according to the final trial results that confirm earlier data. While the trial was conducted when Delta was the prominent variant, early lab studies showed it continued to work against Omicron.

UK and European gas prices rose another 10%, adding to the 10% gains the previous day, with low inventories, geopolitical risk at the Russia-Ukraine border, cold temperatures and a lack of wind power all adding to the fear of power shortages. Oil prices are down 2%, with the IEA saying that the global oil market has returned to surplus, while traders see weaker demand from Omicron as some countries impose restrictions to stop its spread.

Currency movements have been modest for the majors we closely monitor. In overnight moves, CAD is on the soft side (down 0.2%) and GDP is on the stronger side (+0.3%), while other movements are within +/- 0.1% against the USD. The NZD has tracked sideways around the 0.6750 mark, after posting a fresh year-to-date low of 0.6736 yesterday afternoon, 1pip below last week's low. After dipping below 0.71 yesterday, the AUD is trying to stay just above that mark. NZD/AUD is close to 0.95.

Domestic rates were pushed down by global forces yesterday. NZGBs were marked 4-6bps lower across much of the curve, while there was a slight flattening bias for the

swaps curve, with better receivers at the long end. The 10-year swap rate fell 4bps against a 2bps fall in the 2-year rate.

The economic calendar in the day ahead is heavy. NZ's current account deficit is expected to show a further blow-out, to 4½% of GDP, while the government fiscal update is expected to show stronger figures than the May Budget, despite the lockdown restrictions. China monthly activity data for November, UK CPI, US retail sales and Canadian CPI data are the key global releases. Our next daily report will be published before the FOMC update at 8am NZ time.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Current a/c bal. (ann % of GDP)	Q3	-4.5	-3.3	10:45
AU	Westpac consumer conf	Dec		105.3	12:30
NZ	HY economic and fiscal update	Dec			13:00
CH	Retail sales (y/y%)	Nov	4.7	4.9	15:00
CH	Industrial production (y/y%)	Nov	3.7	3.5	15:00
CH	Fixed assets investment (y/y%)	Nov	5.4	6.1	15:00
UK	CPI (y/y%)	Nov	4.8	4.2	20:00
UK	CPI core (y/y%)	Nov	3.7	3.4	20:00
US	Retail sales advance (m/m%)	Nov	0.8	1.7	02:30
US	Retail sales ex auto, gas (m/m%)	Nov	0.8	1.4	02:30
CA	CPI (y/y%)	Nov	4.7	4.7	02:30
CA	CPI core (avg y/y%)	Nov	2.7	2.7	02:30
US	NAHB housing market index	Dec	84	83	04:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities			Commodities**							
Indicative overnight ranges (*)					Other FX			Major Indices			Price				
	Last	% Day	Low	High		Last	% Day			Last	Net Day		Last	Net Day	
NZD	0.6747	-0.1	0.6739	0.6771	CHF	0.9229	+0.0		S&P 500	4,611	-1.3	26.4	Oil (Brent)	72.88	-2.1
AUD	0.7105	-0.4	0.7102	0.7136	SEK	9.139	+0.5		Dow	35,443	-0.6	18.7	Oil (WTI)	69.81	-2.0
EUR	1.1272	-0.1	1.1265	1.1324	NOK	9.104	+0.6		Nasdaq	15,107	-2.0	21.4	Gold	1772.6	-0.8
GBP	1.3226	+0.1	1.3198	1.3257	HKD	7.801	-0.0		Stoxx 50	4,145	-0.9	18.3	HRC steel	1607.0	+0.0
JPY	113.67	+0.1	113.43	113.75	CNY	6.367	+0.0		FTSE	7,219	-0.2	10.5	CRB	225.4	-0.2
CAD	1.2852	+0.4			SGD	1.370	+0.1		DAX	15,454	-1.1	16.9	Wheat Chic.	789.8	+0.1
NZD/AUD	0.9496	+0.2			IDR	14,325	-0.0		CAC 40	6,895	-0.6	24.7	Sugar	19.65	+0.1
NZD/EUR	0.5986	+0.0			THB	33.42	+0.0		Nikkei	28,433	-0.7	6.5	Cotton	106.22	-0.5
NZD/GBP	0.5101	-0.2			KRW	1,183	+0.2		Shanghai	3,662	-0.5	8.7	Coffee	237.2	+0.2
NZD/JPY	76.69	-0.0			TWD	27.81	+0.1		ASX 200	7,378	-0.0	11.3	WM powder	4150	-1.2
NZD/CAD	0.8671	+0.2			PHP	50.36	+0.0		NZX 50	12,930	-0.5	1.3	Australian Futures		
NZ TWI	72.70	-0.0											3 year bond	98.95	-0.02
													10 year bond	98.41	-0.02

Interest Rates						
	Rates		Swap Yields		Benchmark 10 Yr Bonds	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day
USD	0.25	0.20	0.86	1.53	USD	1.44 0.02
AUD	0.10	0.06	0.86	1.89	AUD	1.54 -0.06
NZD	0.75	0.87	2.21	2.55	NZD	2.38 -0.05
EUR	0.00	0.06	-0.36	0.10	GER	-0.37 0.01
GBP	0.10	0.09	1.00	0.99	GBP	0.72 0.03
JPY	-0.03	-0.08	0.00	0.10	JPY	0.05 0.00
CAD	0.25	0.50	1.48	1.95	CAD	1.43 0.04

NZ Government Bonds				NZ Swap Yields		
	Last	Net Day		Last	Net Day	
NZGB 5 1/2 04/15/23	1.54	0.00	1 year	1.68	-0.01	
NZGB 0 1/2 05/15/26	2.23	-0.04	2 year	2.20	-0.02	
NZGB 0 1/4 05/15/28	2.29	-0.04	5 year	2.50	-0.02	
NZGB 1 1/2 05/15/31	2.32	-0.06	7 year	2.52	-0.03	
NZGB 2 05/15/32	2.38	-0.05	10 year	2.53	-0.04	
NZGB 1 3/4 05/15/41	2.76	-0.04	15 year	2.56	-0.04	
NZGB 2 3/4 05/15/51	2.82	-0.04				

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

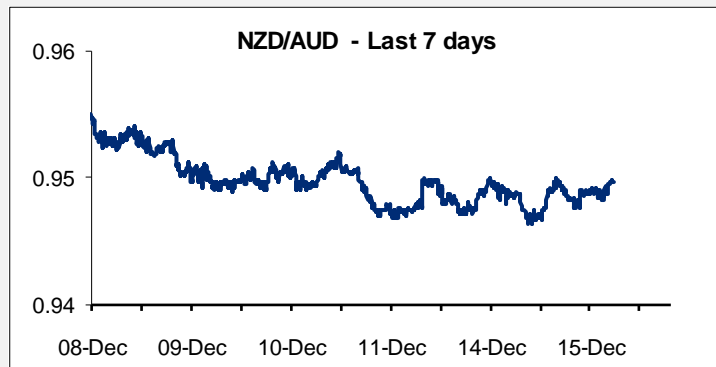
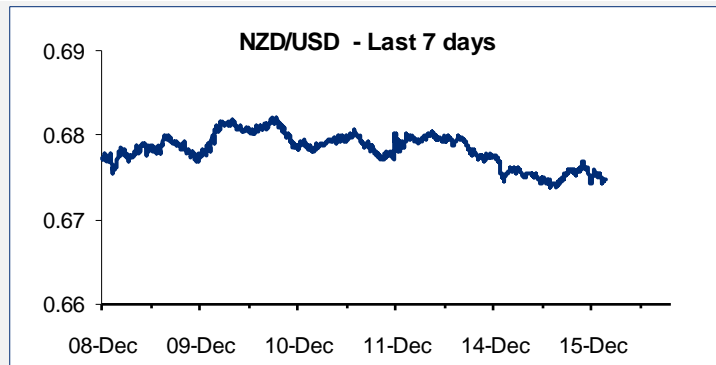
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

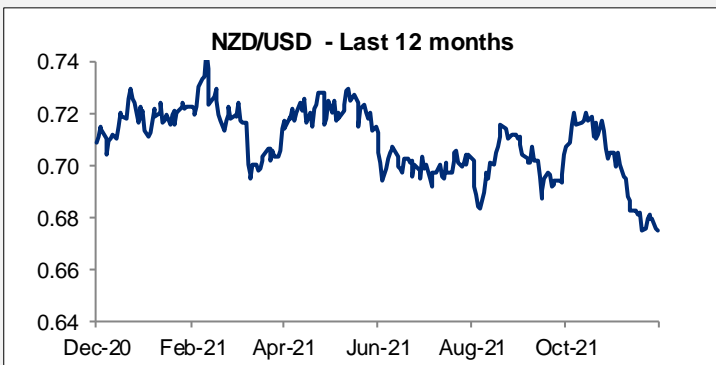
NZD exchange rates

15/12/2021 6:57 am		Prev. NY close
USD	0.6747	0.6756
GBP	0.5101	0.5112
AUD	0.9496	0.9474
EUR	0.5986	0.5987
JPY	76.69	76.71
CAD	0.8671	0.8652
CHF	0.6227	0.6234
DKK	4.4510	4.4519
FJD	1.4383	1.4393
HKD	5.2633	5.2706
INR	51.19	51.18
NOK	6.1424	6.1109
PKR	119.98	119.69
PHP	33.98	34.01
PGK	2.3757	2.3689
SEK	6.1662	6.1443
SGD	0.9240	0.9241
CNY	4.2959	4.3015
THB	22.52	22.57
TOP	1.5313	1.5264
VUV	76.44	76.21
WST	1.7605	1.7582
XPF	71.45	71.57
ZAR	10.9056	10.8247



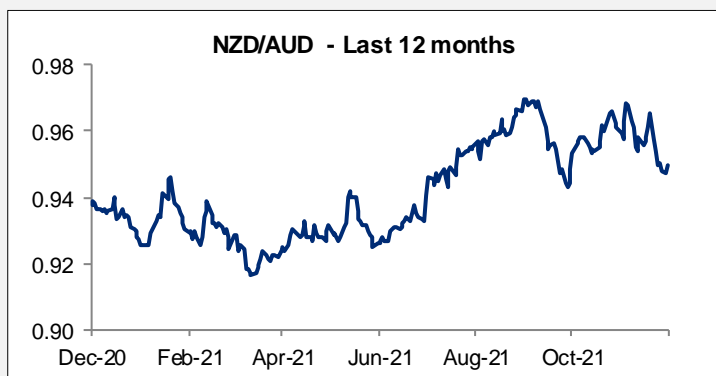
NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.15	-2.65
3 Months	-11.06	-10.32
6 Months	-29.69	-28.45
9 Months	-53.93	-51.13
1 Year	-79.95	-77.95



NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.17	-6.93
3 Months	-19.65	-18.03
6 Months	-47.50	-44.37
9 Months	-80.07	-74.78
1 Year	-112.17	-106.96



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