

15 November 2021



Events Round-Up

NZ: Manufacturing PMI, Oct: 54.3 vs. 51.4 prev.

EC: Industrial production (m/m%), Sep: -0.2 vs. -0.5 exp.

US: JOLTS job openings (k), Sep: 10,438 vs. 10,300 exp.

US: Uni. Michigan consumer sentiment, Nov: 66.8 vs. 72.5 exp.

Good Morning

Equity markets recovered further on Friday after their post-US CPI sell off earlier in the week. The USD was weaker, although it remains near a 12-month high, while the NZD recovered to 0.7040. Bond yields consolidated while US inflation expectations continue to make new highs.

Inflation remains the main topic dominating market discussion at present. The big upside surprise to US CPI on Wednesday night, which saw headline and core inflation reach their highest levels since the early 1990s, has clearly called into question the Fed's 'transitory' inflation narrative and the market has reacted by bringing forward the first Fed hike to July next year.

Against this backdrop, US inflation expectations continue to trend higher, with the 10-year breakeven inflation rate briefly hitting 2.76% on Friday, its highest level since 2005 and close to its highest on record. While inflation is expected to remain elevated over the coming few years, the market still has faith that the Fed will engineer a path back to the 2% target in the long run; the 5y5y forward breakeven inflation rate is around 2.3%.

Bond market moves were relatively subdued on Friday after their big moves higher earlier in the week. The US 10-year rate was 11bps higher last week, closing at 1.56%, but higher inflation expectations mean that *real* (i.e. inflation-adjusted) interest rates remain rock bottom. The 10-year US real yield fell 7bps last week, to -1.17%. Ultimately, both US real and nominal interest rates will need to go higher if the Fed needs to tighten policy to get inflation under control.

For now, ultra-low real interest rates and robust corporate earnings are keeping equity markets supported, despite the market bringing forward the expected timing of Fed rate hikes. The S&P500 was up 0.7% on Friday and the

NASDAQ was up 1%, with both indices recovering further from their post-CPI sell offs. In Japan, the Nikkei was 1.1% higher amidst reports that the government will announce a fiscal stimulus worth more than ¥40tn (~7%/GDP) later this week, including cash handouts worth the equivalent of US\$880 for those aged 18 and younger. The Nikkei newspaper reported that some of the fiscal stimulus will include loans and previously unused funds, so the net new stimulus will be less than the headline figure suggests.

In Europe, a surge in Covid-19 cases is leading to renewed restrictions, although markets remain unfazed for now. The Dutch government has imposed a three week 'partial lockdown', with shops required to close earlier, a maximum four people allowed to visit households, and work-from-home encouraged. The surge in cases and reimposition of restrictions in the Netherlands comes despite the country having a relatively high vaccination rate, with 73% of the total population double dosed. In Austria, the government announced a lockdown for unvaccinated individuals, preventing them from non-essential activities like going to most retail shops. Austria's double vaccination rate is a bit lower, at 63% of the total population (note: NZ is 66% double vaccinated). In Beijing, Bloomberg reported that businesses have been advised to cancel conferences and reduce public interactions as the authorities pursue their elimination approach.

In economic data, the University of Michigan consumer confidence index slumped to its lowest level in 10 years, at 66.8. With US Covid cases having trended lower over the past few months, the most likely cause of falling consumer confidence is high inflation, which is raising the cost of living and cutting into real incomes. It's worth noting that alternative measures of consumer confidence, such as the Conference Board survey, paint a more optimistic picture. Friday's release will increase attention on the US retail sales release on Tuesday night, with the market looking for a solid 1.3% monthly increase in spending.

The JOLTS survey on Friday provided further evidence of an extremely tight labour market in the US. US job openings remained at exceptionally high levels in September, at 10.4 million, much higher than the number of unemployed, which sits at 'just' 7.4 million. The quits rate, a favourite indicator of former Fed Chair Yellen, hit its highest level on record (since 2001), at 3%. A high quits rate is often indicative of growing wage pressure, with employees quitting to move to better paid jobs elsewhere. Wage growth, as measured by the Atlanta Fed's Wage

Growth Tracker, was at 4.1% y/y in October, its highest level since 2008.

In currencies, the USD gave back some of its gains from earlier in the week, falling 0.1%-0.2% in index terms. The BBDXY index was up 0.7% last week and the (euro centric) DXY index 0.9% as the market pulled forward the expected timing of the Fed's first rate hike. Both US indices hit their highest levels in more than 12 months on Friday afternoon.

The NZD broke below 0.70 on Friday afternoon, the first time it had traded below this level in almost a month, before recovering in the overnight session to end the week at around 0.7040. We maintain a cautious outlook, with a year-end target of 0.69, consistent with a 0.67-0.72 trading range over coming months. The NZD is encountering multiple headwinds, including a more hawkish Fed, which has led to a stronger USD, and uncertainty around China's economic outlook, while the RBNZ's rate hike cycle is already well priced in.

Friday was much more settled in the domestic rates market, after the big increases the previous session after the US CPI release. Swap rates across the curve remain just near multi-year highs with the market continuing to price a significant (40%) risk of a 50bps OCR hike at the MPS later this month. The focus domestically this week is the RBNZ's inflation expectations series on Thursday. The 2-year ahead inflation expectations series, which was 2.27% in Q3, is bound to increase given the current inflationary backdrop, it's just a question of how much.

Offshore, it's a big week for Fed speak with 13 events scheduled, though notably absent from the roster are Fed

Chair Powell and Governor Brainard, the two main contenders for the position of Fed Chair. Biden is expected to announce his decision on who will get the nod before Thanksgiving on the 25th of November, with betting markets and economists strongly leaning towards Powell.

In Australia, focus will be on Q3 wage data on Wednesday given the RBA has placed significant emphasis on needing higher wage growth to sustainably meet its inflation target. The market is looking for quarterly wage growth of 0.6%, which would lift the annual rate to 2.2%. RBA Governor Lowe speaks on "recent trends in inflation" on Tuesday.

The focus in the session ahead is the monthly Chinese activity data amidst concerns around its recovery as it perseveres with its Covid elimination strategy and clampdown on the real estate sector.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Performance Services Index	Oct		46.9	10:30
NZ	Net Migration	Sep		353	10:45
JN	GDP (q/q%)	3Q P	-0.2	0.5	12:50
CH	Retail Sales (y/y%)	Oct	3.8	4.4	15:00
CH	Industrial Production (y/y%)	Oct	3	3.1	15:00
CH	Fixed Asset Investment (y/y%)	Oct	6.2	7.3	15:00

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**				
Indicative overnight ranges (*)				Other FX				Major Indices				Price				
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day	
NZD	0.7044	+0.3	0.7010	0.7048	CHF	0.9215	+0.1		S&P 500	4,683	+0.7	32.4		Oil (Brent)	82.17	-0.8
AUD	0.7332	+0.5	0.7290	0.7334	SEK	8.761	+0.6		Dow	36,100	+0.5	24.1		Oil (WTI)	80.79	-1.0
EUR	1.1445	-0.1	1.1433	1.1462	NOK	8.692	+0.2		Nasdaq	15,861	+1.0	35.5		Gold	1868.5	+0.2
GBP	1.3414	+0.3	1.3363	1.3426	HKD	7.791	-0.0		Stoxx 50	4,370	+0.3	27.3		HRC steel	1812.0	-0.1
JPY	113.89	-0.1	113.76	114.25	CNY	6.380	-0.2		FTSE	7,348	-0.5	16.3		CRB	237.1	-0.2
CAD	1.2550	-0.2			SGD	1.353	-0.1		DAX	16,094	+0.1	23.1		Wheat Chic.	828.5	+0.5
NZD/AUD	0.9607	-0.2			IDR	14,219	-0.4		CAC 40	7,091	+0.2	31.8		Sugar	20.01	-0.5
NZD/EUR	0.6155	+0.4			THB	32.75	-0.3		Nikkei	29,610	+1.1	16.6		Cotton	117.69	-0.7
NZD/GBP	0.5251	+0.0			KRW	1,179	-0.1		Shanghai	3,539	+0.2	6.9		Coffee	222.0	+4.1
NZD/JPY	80.22	+0.2			TWD	27.83	-0.0		ASX 200	7,443	+0.8	16.2		WM powder	4165.0	+0.4
NZD/CAD	0.8840	+0.2			PHP	49.86	-0.6		NZX 50	12,908	-0.9	1.6		Australian Futures		
NZ TWI	75.09	+0.1												3 year bond	98.82	0.03
														10 year bond	98.19	0.05
Interest Rates								NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds											
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last						
USD	0.25	0.16	0.76	1.62	USD	1.56	0.01	NZGB 5 1/2 04/15/23	1.63	0.00	1 year	1.65	0.01			
AUD	0.10	0.04	0.93	2.06	AUD	1.80	-0.02	NZGB 0 1/2 05/15/26	2.33	0.01	2 year	2.31	0.01			
NZD	0.50	0.85	2.31	2.72	NZD	2.66	-0.00	NZGB 0 1/4 05/15/28	2.48	0.00	5 year	2.68	-0.00			
EUR	0.00	0.06	-0.32	0.18	GER	-0.26	-0.03	NZGB 1 1/2 05/15/31	2.60	-0.01	7 year	2.70	-0.01			
GBP	0.10	0.12	1.13	1.19	GBP	0.91	-0.01	NZGB 2 05/15/32	2.66	-0.00	10 year	2.72	-0.02			
JPY	-0.05	-0.09	0.01	0.12	JPY	0.08	0.01	NZGB 1 3/4 05/15/41	2.94	0.00	15 year	2.77	-0.03			
CAD	0.25	0.49	1.50	2.12	CAD	1.67	-0.01	NZGB 2 3/4 05/15/51	2.99	0.00						

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

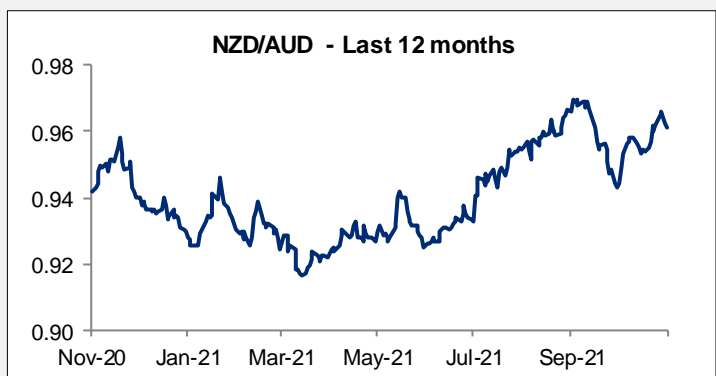
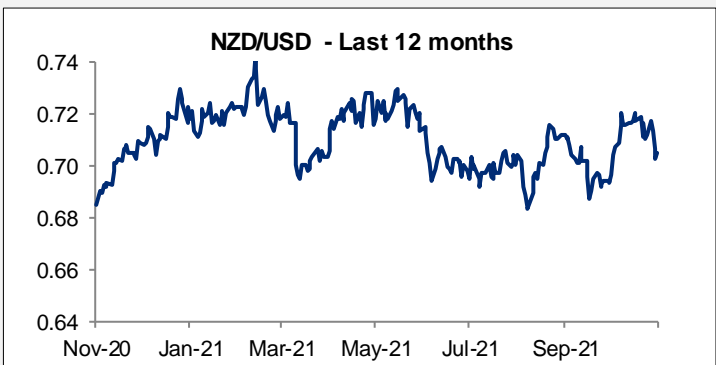
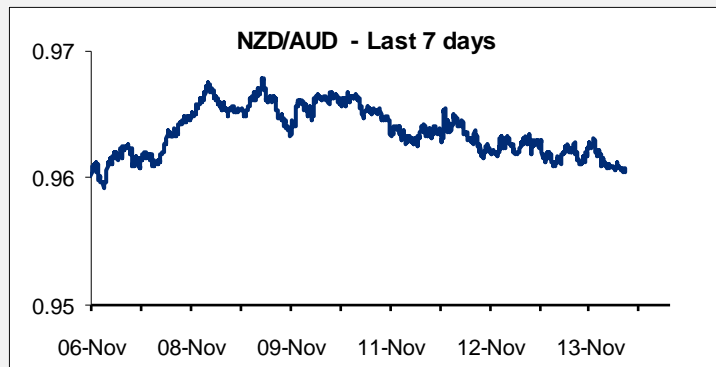
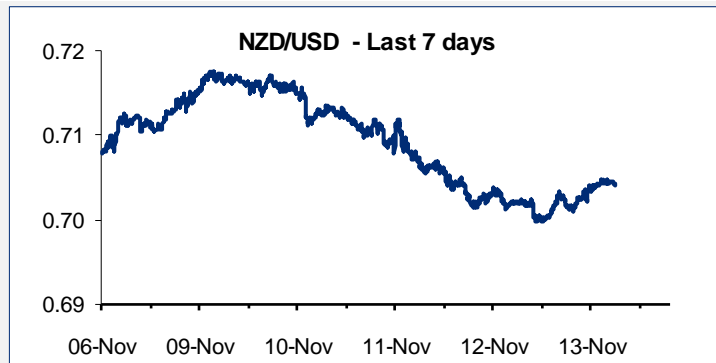
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: New York close

Source: Bloomberg

NZD exchange rates

13/11/2021	NY close	Prev. NY close
USD	0.7044	0.7021
GBP	0.5251	0.5251
AUD	0.9607	0.9626
EUR	0.6155	0.6131
JPY	80.22	80.08
CAD	0.8840	0.8832
CHF	0.6491	0.6465
DKK	4.5769	4.5601
FJD	1.4767	1.4744
HKD	5.4878	5.4707
INR	52.44	52.32
NOK	6.1229	6.0906
PKR	122.39	119.33
PHP	35.12	35.22
PGK	2.4707	2.4635
SEK	6.1713	6.1168
SGD	0.9528	0.9508
CNY	4.4939	4.4874
THB	23.11	23.11
TOP	1.5780	1.5647
VUV	78.49	77.99
WST	1.8036	1.7869
XPF	73.42	72.20
ZAR	10.7970	10.7464



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.13	-2.67
3 Months	-10.91	-10.42
6 Months	-29.55	-28.55
9 Months	-56.19	-54.43
1 Year	-88.27	-86.26

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.37	-4.47
3 Months	-19.68	-18.56
6 Months	-45.25	-42.80
9 Months	-78.02	-74.09
1 Year	-114.04	-109.03

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