

15 October 2021



Events Round-Up

AU: Employment change (k), Sep: -138k vs. -110 exp.

AU: Unemployment rate (%), Sep: 4.6 vs. 4.8 exp.

CH: CPI (y/y%), Sep: 0.7 vs. 0.8 exp.

CH: PPI (y/y%), Sep: 10.7 vs. 10.5 exp.

US: Initial jobless claims (k), 9-Oct: 293 vs. 320 exp.

US: PPI ex food and energy (y/y%), Sep: 6.8 vs. 7.1 exp.

Good Morning

It has been a good session for risk assets overnight, with equity markets up strongly on better than expected earnings, commodity indices hitting fresh highs and commodity currencies appreciating, the NZD breaking back above the 0.70 mark. The bond market has brushed off yesterday's strong US CPI number, with the US 10-year rate falling towards 1.50%. In the local rates market, the 2-year swap rate keeps pushing higher, up another 3bps yesterday, to 1.60%.

Early results from the US corporate earnings season have been positive, helping to support market sentiment and (temporarily at least) diverting attention from rising inflation and the risk of earlier central bank rate hikes. Four of the major US banks have reported overnight, with all beating earnings expectations, in part due to the release of loan loss reserves. The S&P500 is up 1.6% overnight while the NASDAQ is up 1.7%. The S&P500 is now within 2.5% of its all time high.

Some signs of stabilisation in long-term bond yields, after their recent strong run higher, may also be helping equity markets. The US 10-year rate is 2bps lower overnight, to 1.52%, while the German 10-year rate, which hit a 2½-year high earlier in the week, is down 6bps, to -0.19%. The moves lower in bond yields have been led by real yields (the US 10-year real rate is back below -1%) with breakeven inflation rates continuing to hover near multi-year highs in the US and Europe amidst an undercurrent of rising inflationary pressures.

Supply chain disruptions, which has been a key driver of recent inflationary pressures, aren't showing any signs of letting up. Taiwan Semiconductor Manufacturing (TSMC), the world's largest maker of semiconductors, warned that it expected its capacity to remain "very tight" throughout 2022, suggesting auto and electronics production will

remain constrained next year. Furniture maker Ikea told the FT that it expected challenges sourcing raw materials to continue for most of, if not all, the coming year. Meanwhile, workers have gone on strike at John Deere, maker of industrial equipment, after they rejected wage increases of 5-6%.

Notable overnight is strength in commodity prices, with several indices hitting new highs, adding to inflationary pressures. The Bloomberg Commodity Index is up 1.3%, to its highest level since the start of 2015, while the LME Metals Index, which dates back to the early 2000s, hit a record high. While tight supply is a key factor here, the rise in industrial commodity prices also likely reflects strong demand conditions, a good sign for the global economy. Oil prices are up just less than 1% with the IEA observing "unseasonably high demand" for oil across power plants, including in China, amidst shortages of gas and coal.

Economic data hasn't been market moving. US initial jobless claims fell to a post-Covid low, below 300k, with the trend lower indicative of continued improvement in the labour market. With CPI data having already been released, the market hasn't paid much attention to lower than expected US PPI inflation data (which remained very high in absolute terms, at 5.9% y/y on a core basis). China's PPI inflation came in at its highest level in 26 years, courtesy of the strength in commodity prices, but consumer inflation remains very subdued, below 1%.

Higher commodity prices and improved risk appetite has seen commodity currencies perform strongly over the past 24 hours. The NZD is top of the currency leader board, up 0.9% from this time yesterday, and hitting a three-week high of 0.7025. The AUD is up a more modest 0.5%, seeing the NZD/AUD cross push up towards the 0.95 mark. The JPY continues to underperform, despite the pullback in US Treasury yields overnight, with USD/JPY pushing back towards recent three-year highs, around 113.70.

Bank of England external MPC member Tenreyro, one of the most dovish members on the committee, said in a speech overnight that raising rates at this point, to combat what in her view were mainly temporary inflation pressures, risked being "self defeating. This seems the minority view on the committee at present. Meanwhile, fellow MPC member Mann pointed to financial markets having already done some of the tightening for the BOE, for instance by lifting wholesale interest rates, meaning

she “can wait” before hiking rates. UK rates were lower overnight, but more reflecting global developments rather than any major change in the BoE rate outlook. The market continues to price around a 50/50 chance of a 15bps BoE rate hike at the next meeting in November with such a move fully priced in by December.

As expected, the market ignored the Australian labour market report yesterday which, for the record, showed a sharp rise in job losses and a small increase in the unemployment rate. The data predates the easing of restrictions in NSW, which started on Monday, and the signs are encouraging for a big rebound in jobs growth in the coming months, with job ads jumping in September ahead of the end of lockdown.

NZ short-term interest rates were higher again yesterday, with the 2-year swap rate increasing 3bps (having been as much as 5bps higher at one stage) to 1.60%. The global backdrop, where markets are pulling forward rate hike expectations for the likes of the Fed and RBA, ongoing mortgage-related paying in the swap market, caution ahead of what is expected to be a huge NZ CPI print next week, and offside market positioning are all likely to be contributing to upward pressure on short-end NZ rates. The 2-year swap rate is almost 20bps higher this month alone despite an on-expectations RBNZ OCR hike and a seemingly relentless trend higher in Covid-19 case numbers in Auckland, which hit 71 yesterday.

The long-end of the NZ curve was again a different story, with the 10-year swap rate down another 2bps, to 2.31%,

while the 10-year government bond yield was down 1bp despite more modest demand at yesterday’s bond tender.

Finally, Chile doesn’t often feature in this daily commentary, but its larger-than-expected 125bps rate hike yesterday is worthy of note. Chile has gone from its pandemic emergency rate setting of 0.5% to a level they now consider neutral (2.75%) in just three steps and in less than 4 months. Prior to the pandemic, rates were at 1.75%. A broad emerging markets tightening cycle is underway in response to higher inflation pressures.

The focus in the session ahead is the US retail sales release amidst the recent downturn in consumer confidence (likely delta outbreak related). NY Fed President Williams’ speech tonight will also be worth listening to for any signs he is showing greater concern around inflation risks.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Manufacturing PMI	Sep		40.1	10:30
US Fed’s Harker Discusses the Economic Outlook				11:00
US Retail Sales (m/m%)	Sep	-0.2	0.7	01:30
US Retail Sales Ex Auto and Gas (m/m%)	Sep	0.4	2	01:30
US Retail Sales Control Group (m/m%)	Sep	0.5	2.5	01:30
US U. of Mich. Sentiment	Oct P	73	72.8	03:00
US Fed’s Williams Takes Part in Monetary Policy Panel...				05:20

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)					Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.7025	+0.9	0.6977	0.7041	S&P 500	4,434	+1.6	27.1	Oil (Brent)	83.90	+0.9		
AUD	0.7413	+0.5	0.7386	0.7427	Dow	34,901	+1.5	22.4	Oil (WTI)	81.21	+1.0		
EUR	1.1590	-0.0	1.1584	1.1624	Nasdaq	14,818	+1.7	25.9	Gold	1796.7	+0.2		
GBP	1.3678	+0.1	1.3665	1.3734	Stoxx 50	4,149	+1.6	26.8	HRC steel	1897.0	+0.1		
JPY	113.69	+0.4	113.29	113.72	FTSE	7,208	+0.9	21.4	CRB	235.7	-0.1		
CAD	1.2364	-0.6			DAX	15,463	+1.4	18.7	Wheat Chic.	736.3	+0.6		
NZD/AUD	0.9477	+0.4			CAC 40	6,685	+0.6	35.3	Sugar	19.59	-1.4		
NZD/EUR	0.6061	+0.9			Nikkei	28,551	+1.5	21.5	Cotton	107.31	+3.3		
NZD/GBP	0.5136	+0.7			Shanghai	3,558	-0.1	6.8	Coffee	209.3	+0.3		
NZD/JPY	79.87	+1.3			ASX 200	7,312	+0.5	17.7	WM powder	3850.0	+0.4		
NZD/CAD	0.8686	+0.2			NZX 50	13,048	+0.2	4.5	Australian Futures				
NZ TWI	74.81	+0.8							3 year bond	99.285	0.00		
									10 year bond	98.37	0.02		
Interest Rates					NZ Government Bonds				NZ Swap Yields				
	Rates				Benchmark 10 Yr Bonds								
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last		Last				
USD	0.25	0.12	0.49	1.53	USD	1.52	-0.02	NZGB 5 1/2 04/15/23	1.07	0.02	1 year	1.20	0.01
AUD	0.10	0.03	0.38	1.72	AUD	1.63	-0.06	NZGB 0 1/2 05/15/26	1.67	-0.00	2 year	1.60	0.03
NZD	0.50	0.68	1.59	2.29	NZD	2.11	-0.01	NZGB 0 1/4 05/15/28	1.90	-0.01	5 year	2.00	0.00
EUR	0.00	0.06	-0.40	0.20	GER	-0.19	-0.06	NZGB 1 1/2 05/15/31	2.11	-0.02	7 year	2.13	-0.01
GBP	0.10	0.13	0.90	1.19	GBP	1.04	-0.05	NZGB 2 05/15/32	2.20	-0.01	10 year	2.31	-0.02
JPY	-0.05	-0.08	0.01	0.13	JPY	0.08	-0.01	NZGB 1 3/4 05/15/41	2.63	-0.00	15 year	2.49	-0.02
CAD	0.25	0.46	1.10	1.98	CAD	1.56	-0.04	NZGB 2 3/4 05/15/51	2.80	-0.01			

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

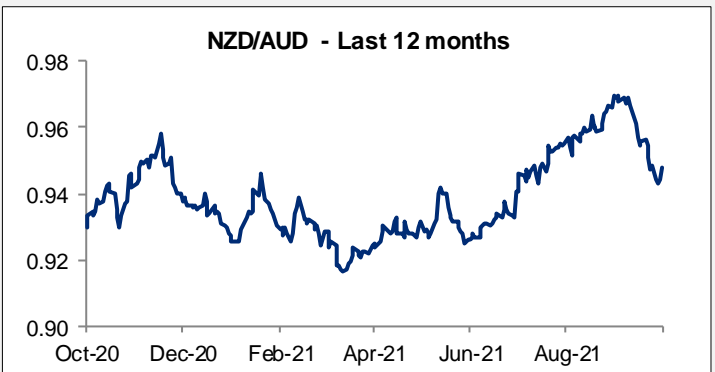
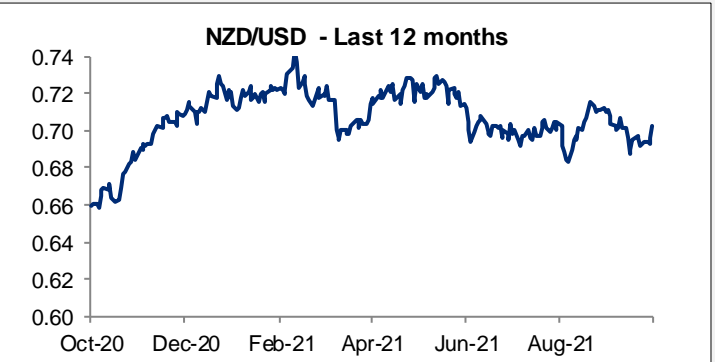
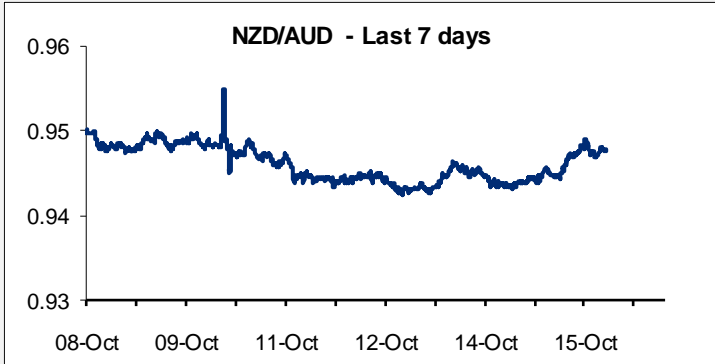
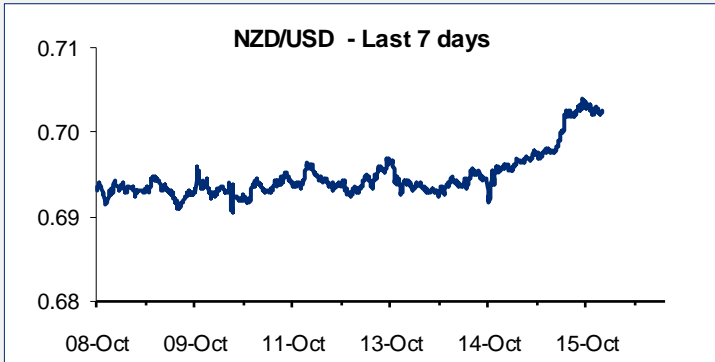
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:55

Source: Bloomberg

NZD exchange rates

15/10/2021	6:55 a.m.	Prev. NY close
USD	0.7025	0.6964
GBP	0.5136	0.5098
AUD	0.9477	0.9438
EUR	0.6061	0.6007
JPY	79.87	78.87
CAD	0.8686	0.8665
CHF	0.6490	0.6436
DKK	4.5099	4.4692
FJD	1.4703	1.4578
HKD	5.4644	5.4176
INR	52.87	52.49
NOK	5.9459	5.9161
PKR	120.22	119.18
PHP	35.56	35.30
PGK	2.4649	2.4504
SEK	6.0728	6.0520
SGD	0.9477	0.9413
CNY	4.5239	4.4767
THB	23.32	23.29
TOP	1.5776	1.5618
VUV	77.83	77.50
WST	1.8028	1.7934
XPF	72.21	71.60
ZAR	10.3912	10.3116



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.68	-2.43
3 Months	-9.04	-8.75
6 Months	-22.61	-21.61
9 Months	-42.01	-40.43
1 Year	-64.41	-62.42

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.93	-4.44
3 Months	-17.33	-16.53
6 Months	-38.09	-35.96
9 Months	-65.40	-61.85
1 Year	-96.44	-91.70

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