

16 December 2021



## Events Round-Up

NZ: Current a/c bal. (ann % of GDP), Q3: -4.6 vs. -4.5 exp.

AU: Westpac consumer conf, Dec: 104.3 vs. 105.3 prev.

CH: Retail sales (y/y%), Nov: 3.9 vs. 4.7 exp.

CH: Industrial production (y/y%), Nov: 3.8 vs. 3.7 exp.

CH: Fixed assets investment (y/y%), Nov: 5.2 vs. 5.4 exp

UK: CPI (y/y%), Nov: 5.1 vs. 4.8 exp.

UK: CPI core (y/y%), Nov: 4.0 vs. 3.7 exp.

US: Retail sales advance (m/m%), Nov: 0.3 vs. 0.8 exp.

US: Retail sales ex auto, gas (m/m%), Nov: 0.2 vs. 0.8 exp.

CA: CPI (y/y%), Nov: 4.7 vs. 4.7 exp.

CA: CPI core (avg y/y%), Nov: 2.7 vs. 2.7 exp.

US: NAHB housing market index, Dec: 84 vs. 84 exp.

## Good Morning

Markets continue to trade cautiously ahead of the Fed's economic and policy update at 8am NZ time. US equities are down for the third day running, while US rates and currencies only show small movements leading into the meeting.

This morning, the Fed is widely expected to offer another incrementally more hawkish statement and revise up inflation and interest rate projections. Fed Chair Powell has already retired the word "transitory" when describing inflation, and is on board with a faster taper. He has previously suggested that the end of QE doesn't necessarily mean rate hikes will follow, but it will be hard for him to bat away questions of why, with inflation, so rampant, that rate hikes are not being actively considered. The media will be probing the expected timing and extent of future interest rate hikes that lie ahead. Therefore, his press conference that begins 8:30am NZ time will be just as important as the 8am announcement.

The S&P500 is currently down 0.4%, taking its cumulative fall this week to 2%, after Friday's record close. The US 10-year rate has traded between 1.42-1.47% and is steady for the day at 1.44%. Currency movements have been modest, with overnight and 24-hour movements mostly contained within +/- 0.3% against the USD for the key majors we follow, apart from a larger 0.5% fall for CAD, not helped by slightly lower oil prices and talk that Canada's PM will

possibly enact stricter public health measures to curb the spread of Omicron, ahead of the holidays.

We won't dwell on market prices, as they will likely change, possibly quite considerably, after the Fed's update, but for the record the NZD continues to languish. The currency hit a fresh year-to-date low of 0.6727 yesterday afternoon and isn't much higher leading into the Fed's update. The AUD continues to hold its head above 0.71, so NZD/AUD has slipped further to 0.9450.

The economic calendar has been heavy. China activity data for November underwhelmed, with softer retail sales and investment profiles, not helped by COVID19 restrictions and a slumping property market, while industrial production only showed a mild uptick in growth. The data added to the case for further policy easing.

UK inflation surprised to the upside again, with the annual headline CPI inflation rate breaking the 5% mark at 5.1%, while core inflation hit 4% in November. Alongside a strengthening labour market, the data would ordinarily kick the BoE into gear, but the surge in Omicron case numbers means that most still think that no change in rates is more likely when the Bank meets tonight, while the market prices in half a chance of a 15bps hike that would take Bank Rate to 0.25%. Overnight, the UK reported over 78,610 new COVID19 cases for the day, the most since the start of the pandemic.

Canadian inflation remained high, at 4.7% for headline and 2.7% for the average core figures in November, but both were stable and in line with expectations.

US retail sales were much weaker than expected in November, showing only small monthly increases for the headline and core measures, and negative figures after accounting for inflation. But the data follow a series of strong increases and so the market didn't read too much into them, ahead of the Fed meeting.

Data out of NZ yesterday showed a further notable widening in NZ's current account deficit to 4.6% of GDP, a sign of an overheated economy, but this still seems to be off the radar for investors and rating agencies at the moment. It might get more attention as it likely widens a lot further.

The government's half year fiscal update embodied a strong upward revision in nominal GDP that flowed

through into expected tax revenue and lower debt projections. The current year's bond programme was slashed by a third to \$20bn, so that over the rest of the fiscal year nominal bond tenders will likely run at \$200m per week, from the recent pace of \$500m. The projected bond programme through the next three fiscal years was revised down considerably by \$7b per annum to \$18b pa. The large downward revision to the bond programme reflected the positive revisions to the fiscal metrics as well as NZDM's intention to start running down its large cash buffer held on account at the RBNZ (\$37b as at the end of October).

The size of the reduction surprised the market, driving in a rally in NZGB's, led by the long end of the curve. The 10-year NZGB rate was down as much as 10bps at one stage, before rates reversed course heading into the close. After being up a couple of basis points leading into the announcement, the 10-year rate ended the day down 3bps to 2.29%. The 5-year rate ended flat for the day. But swap spreads showed a notable widening, as swap rates were 3-4bps higher across the curve.

The economic calendar is very heavy over the next 24 hours. After the FOMC update is out of the way this morning, NZ GDP for Q3 is released, with the consensus looking for a minus 4% contraction, a milder view than the RBNZ's minus 7% pick, which pre-dated last week's less-dire partial indicators. RBA Governor Lowe then speaks, ahead of a likely blockbuster Australian employment report, with the consensus looking for a monthly gain of 200k, and some looking for a record high of 300k, following the loosening of lockdown restrictions.

Key data releases tonight include European PMI figures, while the ECB and BoE give policy updates. Neither are

expected to change rates, but a more hawkish tilt can be expected for both. The ECB will be looking to wind down its Pandemic Emergency Purchasing Programme, but it remains to be seen what will be done with the ongoing Asset Purchase Programme in terms of magnitude. The details can always be left until next year.

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## Coming Up

		Period	Cons.	Prev.	NZT
US	FOMC Fed Funds rate (Upper%)	Dec	0.25	0.25	08:00
US	Powell holds press conference				08:30
NZ	GDP (q/q%)	Q3	-4.1	2.8	10:45
AU	RBA Governor Lowe speech				12:30
AU	Employment change (k)	Nov	200	-46	13:30
AU	Unemployment rate (%)	Nov	5.0	5.2	13:30
GE	Markit manufacturing PMI	Dec	56.9	57.4	21:30
GE	Markit services PMI	Dec	51.0	52.7	21:30
EC	Markit manufacturing PMI	Dec	57.8	58.4	22:00
EC	Markit services PMI	Dec		55.9	22:00
UK	Markit PMI manufacturing	Dec	57.6	58.1	22:30
UK	Markit UK services PMI	Dec	57.0	58.5	22:30
UK	Bank of England Bank Rate (%)	Dec	0.1	0.1	01:00
EC	ECB deposit facility rate (%)	Dec	-0.5	-0.5	01:45
US	Initial jobless claims (%)	11-Dec	200	184	02:30
US	Housing starts (k)	Nov	1568	1520	02:30
US	Building permits (k)	Nov	1663	1650	02:30
US	Philly Fed business outlook	Dec	29.1	39	02:30
US	Industrial production (m/m%)	Nov	0.6	1.6	03:15
US	Markit manufacturing PMI	Dec	58.5	58.3	03:45
US	Markit services PMI	Dec	58.8	58.0	03:45

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	0.6738	-0.1	0.6727	0.6760	CHF	0.9262	+0.3		S&P 500	4,613	-0.4	24.9	Oil (Brent)	73.44	-0.3
AUD	0.7130	+0.4	0.7110	0.7152	SEK	9.119	-0.2		Dow	35,565	+0.1	17.8	Oil (WTI)	70.38	-0.5
EUR	1.1263	+0.0	1.1248	1.1277	NOK	9.070	-0.4		Nasdaq	15,110	-0.8	20.0	Gold	1766.0	-0.2
GBP	1.3215	-0.1	1.3206	1.3283	HKD	7.802	+0.0		Stoxx 50	4,160	+0.4	18.1	HRC steel	1630.0	+1.4
JPY	113.88	+0.2	113.63	113.90	CNY	6.368	+0.0		FTSE	7,171	-0.7	10.1	CRB	224.3	-0.5
CAD	1.2907	+0.3			SGD	1.369	-0.1		DAX	15,476	+0.1	15.8	Wheat Chic.	762.3	-3.9
NZD/AUD	0.9450	-0.5			IDR	14,334	+0.1		CAC 40	6,928	-0.0	25.3	Sugar	19.28	-1.9
NZD/EUR	0.5982	-0.1			THB	33.45	+0.1		Nikkei	28,460	+0.1	6.4	Cotton	105.81	-0.1
NZD/GBP	0.5099	+0.0			KRW	1,186	+0.3		Shanghai	3,648	-0.4	8.3	Coffee	237.3	+0.1
NZD/JPY	76.73	+0.0			TWD	27.81	-0.0		ASX 200	7,327	-0.7	9.7	WM powder	4130	-0.5
NZD/CAD	0.8697	+0.3			PHP	50.29	-0.1		NZX 50	12,869	-0.5	0.3	<b>Australian Futures</b>		
NZ TWI	72.59	-0.1											3 year bond	98.805	-0.03
													10 year bond	98.37	0.00
<b>Interest Rates</b>															
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields					
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last		Last		
USD	0.25	0.21	0.87	1.52	USD	1.44	0.00	NZGB 5 1/2 04/15/23	1.53	-0.01	1 year	1.71	0.03		
AUD	0.10	0.06	0.90	1.88	AUD	1.56	0.02	NZGB 0 1/2 05/15/26	2.23	0.00	2 year	2.24	0.04		
NZD	0.75	0.88	2.24	2.57	NZD	2.35	-0.03	NZGB 0 1/4 05/15/28	2.28	-0.02	5 year	2.54	0.04		
EUR	0.00	0.06	-0.34	0.11	GER	-0.36	0.01	NZGB 1 1/2 05/15/31	2.29	-0.03	7 year	2.55	0.04		
GBP	0.10	0.09	1.04	1.01	GBP	0.74	0.01	NZGB 2 05/15/32	2.35	-0.03	10 year	2.57	0.03		
JPY	-0.04	-0.08	0.00	0.10	JPY	0.05	0.00	NZGB 1 3/4 05/15/41	2.72	-0.04	15 year	2.59	0.03		
CAD	0.25	0.50	1.47	1.91	CAD	1.40	-0.03	NZGB 2 3/4 05/15/51	2.79	-0.03					

\* 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 06:36

Source: Bloomberg

**NZD exchange rates**

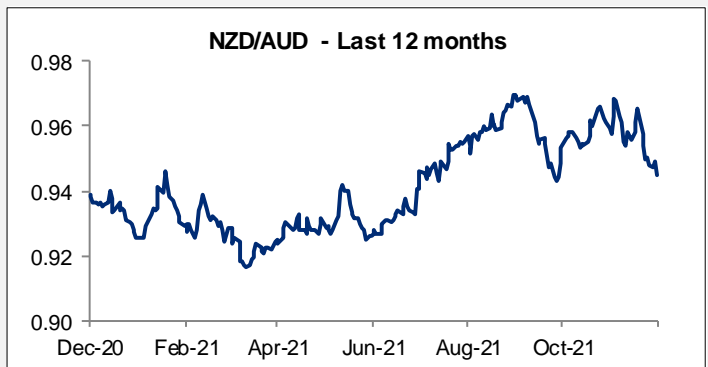
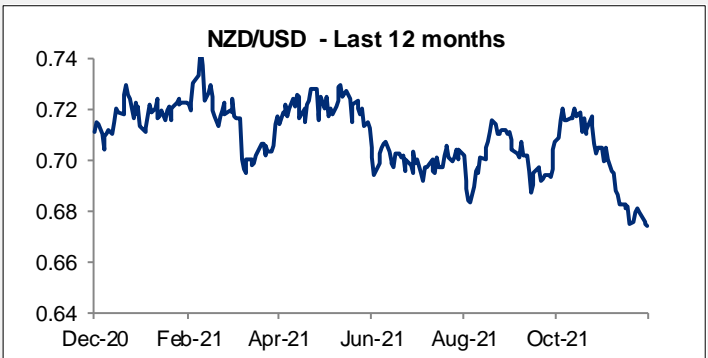
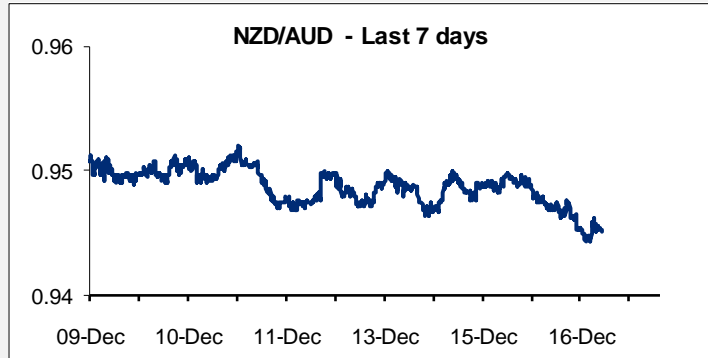
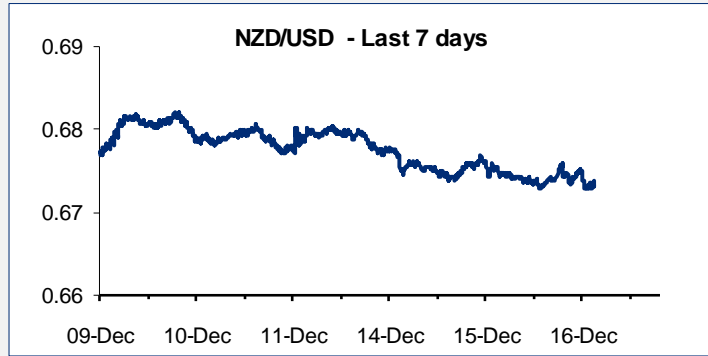
16/12/2021	6:36 am	Prev. NY close
USD	0.6738	0.6745
GBP	0.5099	0.5098
AUD	0.9450	0.9495
EUR	0.5982	0.5991
JPY	76.73	76.69
CAD	0.8697	0.8675
CHF	0.6241	0.6230
DKK	4.4486	4.4546
FJD	1.4379	1.4354
HKD	5.2569	5.2618
INR	51.36	51.17
NOK	6.1116	6.1444
PKR	119.82	119.50
PHP	33.89	33.97
PGK	2.3734	2.3667
SEK	6.1446	6.1659
SGD	0.9222	0.9241
CNY	4.2904	4.2947
THB	22.52	22.51
TOP	1.5310	1.5309
VUV	76.40	76.26
WST	1.7607	1.7551
XPF	71.38	71.47
ZAR	10.8974	10.8503

**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.37	-2.73
3 Months	-11.25	-10.75
6 Months	-30.10	-29.10
9 Months	-55.56	-53.52
1 Year	-82.33	-80.32

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.80	-7.46
3 Months	-20.68	-19.46
6 Months	-49.41	-46.94
9 Months	-84.21	-79.92
1 Year	-115.97	-111.16



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