

16 November 2021



## Events Round-Up

NZ: Performance of services index, Oct: 44.6 vs. 46.5 prev.

JN: GDP (q/q%), Q3: -0.8 vs. -0.2 exp.

CH: Retail sales (y/y%), Oct: 4.9 vs. 3.7 exp.

CH: Industrial production (y/y%), Oct: 3.5 vs. 3.0 exp.

CH: Fixed asset investment (y/y%), Oct: 6.1 vs. 6.2 exp.

US: Empire manufacturing, Nov: 30.9 vs. 22.0 exp.

## Good Morning

Global rates have pushed higher on the back of some hawkish central bank commentary, with US break-even inflation rates up to fresh highs. There's a slightly risk-positive tone in currency markets, seeing small outperformance of commodity currencies.

China monthly activity data for October released yesterday were notably better than expected for retail sales and industrial production against the backdrop of energy shortages and COVID19-related lockdowns. Investment was a touch weaker than expected, dragged down by the weakness in the property sector. China's growth path is much slower than we've become accustomed to, but the data came of some relief that the economy wasn't a lot weaker. Overnight, the US Empire manufacturing index (NY state ISM) was much stronger than expected at 30.9, and inflation indicators were stronger as well.

Presidents Biden and Xi meet this morning in a virtual summit that is expected to last a few hours, with a wide-ranging discussion that might include the Trump-Xi trade deal, which China isn't complying with, and thorny issues like Taiwan and human rights in Xinjiang. Expectations are low for any breakthrough deals, but both sides are looking to build on signs of easing hostility, according to insiders.

Global rates have pushed higher, against a backdrop of more hawkish central bank commentary. Bank of England Bailey told lawmakers he remained "very uneasy about the inflation situation", although evidently not so uneasy that he shocked the market by not voting for a rate hike a couple of weeks ago that had been fully priced. He suggested that he was waiting for more information on the labour market post the end of the furlough scheme before making a decision on rates.

Bank of Canada Governor Macklem wrote an opinion piece in the FT saying "we are not there yet, but we are getting closer" when commenting on the prospect for higher rates. The Bank's forward guidance requires slack in the economy to be fully absorbed and Macklem noted that the Bank has twice brought forward the likely timing of slack being absorbed.

A couple of ex-FOMC members have given hawkish outlooks on policy, with ex-NY Fed President Dudley saying that he sees the peak in the Fed Funds rate at 3-4%, while former Richmond Fed President Lacker, saw 3½-4% as plausible. The market certainly isn't priced for such as aggressive tightening, with forward Fed Funds rates at just over 1½% in a few years-time.

Global rates are broadly higher, with the UK 10-year rate up 5bps and European 10-year rates up 3-4bps, with 2-year rates showing similar moves. Against this backdrop, US Treasuries are trading heavy, with possible additional factors including plenty of corporate issuance to start the week and the auction of \$23b of 20-year Treasuries later this week. The 10-year rate is up 6bps to 1.62%, driven by higher breakeven inflation rates. The US 10-year break even inflation rate is up 5bps to a 16-year high of 2.77%, while the 5-year rate hit a record high of 3.2%.

As US rates have headed higher, the S&P500 has headed lower, opening on a positive note but currently just in negative territory.

Currency market movements have been consistent with a mild risk-on tone. The AUD has performed best, up 0.25% since Friday's NY close, up to 0.7350. The NZD and CAD show small gains, the former near 0.7050 after trading up to 0.7080 overnight. While GBP is up slightly, the EUR is notably weaker, down 0.5% to go sub 1.14 for no obvious reason, although technical factors might be at play. On the NZD crosses, NZD/EUR is up 0.6% to 0.6190, while NZD/AUD is back below 0.96.

The domestic rates market had a slightly better tone to it yesterday, compared to recent trading, with NZGB yields down 2-3bps across much of the curve against a backdrop of flat US Treasuries. Swap rates were down by 2bps from the 2-year maturity.

The key event on the economic calendar today is RBA Governor Lowe's speech on inflation trends. Tonight, UK labour market data, euro area GDP (second reading) and

US retail sales data are released, the latter providing the most scope for some sort of market reaction.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA minutes of Nov. policy meeting				13:30
AU	RBA Governor Lowe gives speech				15:30
UK	Unemployment rate (%)	Sep	4.4	4.5	20:00
UK	Employment change (3mth k)	Sep	190	235	20:00
EC	GDP (q/q%)	Q3	2.2	2.2	23:00
US	Retail sales advance (m/m%)	Oct	1.3	0.7	02:30
US	Retail sales ex auto, gas (m/m%)	Oct	0.7	0.7	02:30
US	Industrial production (m/m%)	Oct	0.8	-2.4	03:15
US	NAHB housing market index	Nov	80	80	04:00

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		Last	Net Day	
NZD	0.7048	+0.1	0.7046	0.7081	CHF	0.9236	+0.2		S&P 500	4,680	-0.0	30.6	Oil (Brent)	81.17	-1.2
AUD	0.7351	+0.3	0.7344	0.7371	SEK	8.792	+0.3		Dow	36,133	+0.1	22.6	Oil (WTI)	79.80	-1.2
EUR	1.1385	-0.5	1.1381	1.1462	NOK	8.720	+0.3		Nasdaq	15,816	-0.3	33.7	Gold	1865.2	-0.2
GBP	1.3424	+0.1	1.3403	1.3449	HKD	7.789	-0.0		Stoxx 50	4,386	+0.4	27.8	HRC steel	1801.0	-0.6
JPY	114.08	+0.2	113.81	114.09	CNY	6.383	+0.1		FTSE	7,352	+0.1	16.4	CRB	237.1	-0.2
CAD	1.2524	-0.2			SGD	1.353	+0.0		DAX	16,149	+0.3	23.5	Wheat Chic.	833.0	+0.5
NZD/AUD	0.9588	-0.2			IDR	14,202	-0.1		CAC 40	7,129	+0.2	32.5	Sugar	19.75	-1.3
NZD/EUR	0.6191	+0.6			THB	32.72	-0.1		Nikkei	29,777	+0.6	14.9	Cotton	117.84	+0.1
NZD/GBP	0.5250	-0.0			KRW	1,178	-0.1		Shanghai	3,533	-0.2	5.6	Coffee	225.4	+1.6
NZD/JPY	80.40	+0.2			TWD	27.78	-0.2		ASX 200	7,470	+0.4	15.2	WM powder	4175.0	+0.2
NZD/CAD	0.8827	-0.2			PHP	50.18	+0.7		NZX 50	12,964	+0.4	1.7	<b>Australian Futures</b>		
NZ TWI	75.18	+0.1											3 year bond	98.81	-0.01
													10 year bond	98.15	-0.04

Interest Rates					NZ Government Bonds			NZ Swap Yields					
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	0.25	0.16	0.76	1.67	USD	1.62	0.06	NZGB 5 1/2 04/15/23	1.63	0.00	1 year	1.65	0.01
AUD	0.10	0.05	0.96	2.10	AUD	1.77	-0.03	NZGB 0 1/2 05/15/26	2.30	-0.03	2 year	2.29	-0.02
NZD	0.50	0.84	2.30	2.72	NZD	2.64	-0.03	NZGB 0 1/4 05/15/28	2.46	-0.02	5 year	2.66	-0.02
EUR	0.00	0.06	-0.32	0.20	GER	-0.23	0.03	NZGB 1 1/2 05/15/31	2.58	-0.02	7 year	2.68	-0.02
GBP	0.10	0.11	1.12	1.23	GBP	0.96	0.05	NZGB 2 05/15/32	2.64	-0.03	10 year	2.70	-0.02
JPY	-0.05	-0.09	0.01	0.12	JPY	0.07	-0.01	NZGB 1 3/4 05/15/41	2.92	-0.02	15 year	2.75	-0.02
CAD	0.25	0.49	1.53	2.17	CAD	1.72	0.05	NZGB 2 3/4 05/15/51	2.96	-0.02			

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

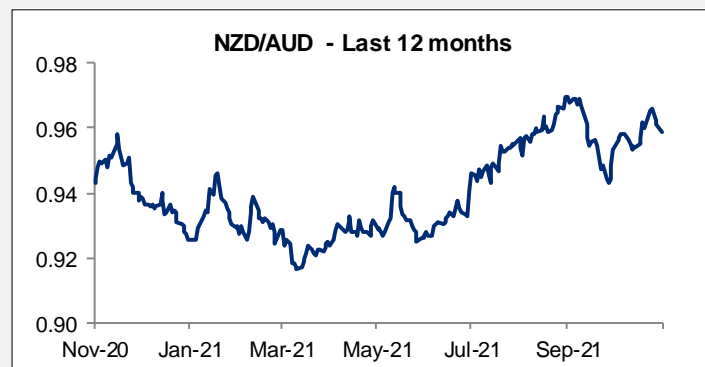
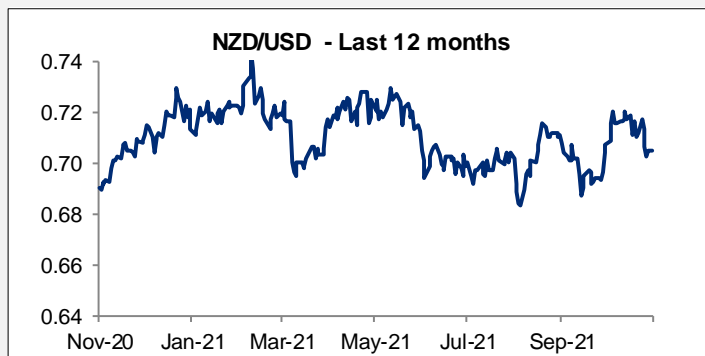
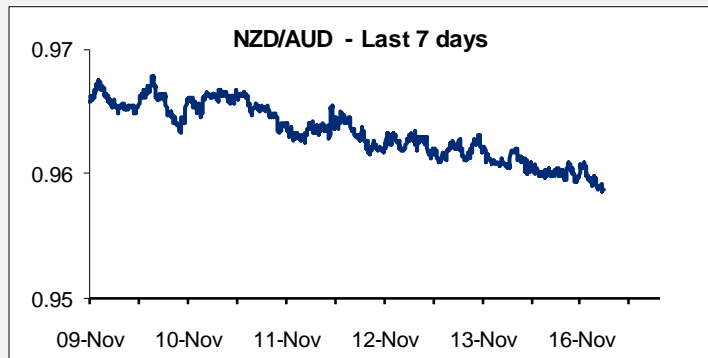
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:58

Source: Bloomberg

**NZD exchange rates**

16/11/2021 6:59 am		Prev. NY close
USD	0.7048	0.7044
GBP	0.5250	0.5251
AUD	0.9588	0.9607
EUR	0.6191	0.6155
JPY	80.40	80.22
CAD	0.8827	0.8840
CHF	0.6510	0.6491
DKK	4.6040	4.5769
FJD	1.4769	1.4767
HKD	5.4896	5.4878
INR	52.50	52.44
NOK	6.1460	6.1229
PKR	122.46	119.72
PHP	35.37	35.12
PGK	2.4730	2.4707
SEK	6.1967	6.1713
SGD	0.9537	0.9528
CNY	4.4988	4.4939
THB	23.06	23.11
TOP	1.5708	1.5780
VUV	78.30	78.49
WST	1.8017	1.8036
XPF	73.46	72.43
ZAR	10.7641	10.7970



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.91	-2.60
3 Months	-10.76	-10.26
6 Months	-29.78	-28.78
9 Months	-56.81	-55.17
1 Year	-88.05	-86.05

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.07	-4.37
3 Months	-19.51	-18.44
6 Months	-45.53	-43.10
9 Months	-78.26	-74.65
1 Year	-111.91	-107.21

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