

17 November 2021



Events Round-Up

UK: Unemployment rate (%), Oct: 4.3 vs. 4.4 exp

UK: Employment change (3mth k), Sep: 247 vs. 190 exp.

EC: GDP (q/q%), Q3: 2.2 vs. 2.2 exp.

US: Retail sales advance (m/m%), Oct: 1.7 vs. 1.4 exp.

US: Retail sales ex auto, gas (m/m%), Oct: 1.4 vs. 0.7 exp.

US: Industrial production (m/m%), Oct: 1.6 vs. 0.9 exp.

US: NAHB housing market index, Nov: 83 vs. 80 exp.

NZ: GDT dairy auction price index (%): 1.9 vs. 4.3 prev.

Good Morning

Strong US economic data and a strong UK labour market report have set the tone for markets overnight, with the USD and GBP outperforming, sending the NZD down below 0.70 and the AUD towards 0.73. There has been less reaction in the bond market, with US Treasuries trading a tight range.

A trio of overnight US economic data releases all surprised to the upside. Retail sales rose a notable 1.7% m/m or 1.4% m/m ex autos and gas in October, alongside a modest upward revision to previous data. Increases in sales were broadly based and were backed up by strong sales reports by Walmart and Home Depot. The data set the tone for a strong final quarter of the year and suggest that the big fall in the University of Michigan consumer sentiment report might be giving a misleading steer on the consumer spending, while the relatively stronger Conference Board measure of consumer confidence looks like a better guide.

US industrial production was strong in October, up 1.6% m/m, with a strong 11% bounce-back in auto production despite the concerns about supply of global semi-conductors. Even excluding this sector, the increase in production was a healthy 0.6%, with manufacturers overcoming shortages of raw materials and labour constraints. The US housing construction market also looks to be on a better footing, with a surprising increase in the NAHB housing market index to 83.

UK labour market data were also stronger than expected, showing a rebound following the end of the government's furlough scheme, with payroll employment lifting 160k and no sign that the 1.1m people on the scheme were added to the ranks of the unemployed. The data add to the case for a December rate hike, with BoE Governor Bailey alluding to

the employment situation after the end of the furlough scheme as a key consideration. Another labour market update is due a couple of days ahead of that decision.

The economic releases have driven the USD and GBP higher overnight. The key USD indices are up 0.3-0.5% for the day, keeping their upward trend since June intact and sending them to fresh highs for the year. For now, the US economy's relative outperformance, given the supercharged policy backdrop, remains a force to be reckoned with, even if the longer term consequences of over stimulating the economy are foreboding.

St Louis Fed President Bullard continues to stand out from his peers on FOMC, arguing for a faster taper that would allow an earlier start to the rate hike cycle. He added an option that rate hikes could begin while the Fed was still buying bonds during the taper and at FOMC he has put on the table allowing a runoff of the balance sheet immediately at the end of the taper. His views are likely to fall on deaf ears. While a faster taper and earlier rate hikes are possible, even if the doves will be fighting back calling for (more) patience, the other two options are highly unlikely.

US Treasuries have taken the data in their stride. The 10-year rate has traded a tight 4bps range for the day, after yesterday's selloff, and is currently barely higher at 1.62%, with rates across the curve showing the same increase of about 1bp. Against a modest fall in key European 10-year rates, the 2bps lift in the UK 10 year and 4bps rise in its 2-year rate stand out, consistent with the market seeing the strong UK labour market data as supporting tighter monetary policy.

Against a backdrop of a stronger USD, the NZD and AUD show notable overnight falls. The NZD is down 0.9% to just below the 0.70 mark, a similar level it found support last week, but ultimately unlikely to hold for too much longer, given strong USD momentum. The AUD is down 0.7% to near 0.7300, seeing NZD/AUD tick lower to 0.9570. GBP is the only major to hold up against the strong USD, relatively steady at 1.3430 and with NZD/GBP down towards 0.52. EUR is down to a fresh 16-month low of 1.1325, while USD/JPY is up to 114.60, just shy of its October high.

The overnight GDT dairy auction showed a seventh consecutive increase in the price index, up 1.9% and an annual increase approaching 40%. All products on sale rose in price, with whole milk powder up 1.9% and skim milk

powder up 1.4%. The NZX milk price future for FY22 broke the \$9 mark late last week and that is a good indication of where the payout is headed. That level is currently above the top of Fonterra’s forecast, fuelled by the backdrop of stronger commodity prices and without the offsetting usual lift in the NZD that would be associated with this trend.

The domestic rates market showed some outperformance yesterday. Against the backdrop of higher US and Australian rates, the 10-year NZGB rate only increased by 3bps to 2.61%. Rates were higher by 3bps across much of the curve, while swap rates were up 2-3bps. Price action over the past couple of days might indicate that NZ-global rate spreads have reached more attractive levels and the less volatile environment should be supporting sentiment as well.

There was little news in the RBA’s release of minutes from the policy meeting earlier this month or Governor Lowe’s speech. Governor Lowe remained blind to the backdrop of rising domestic and global inflationary pressure, still calling Australia “different”. There was little market reaction to his repeated dovish take on the RBA’s policy outlook, where a series of rate hikes is well priced from next year against the Bank’s central forecast that hikes might not be required until 2024.

As expected, there were no breakthrough announcements from the meeting of Presidents Biden and Xi, scheduled to help ease some recent hostility between the superpowers.

In the day ahead, inflation data remain in focus, with NZ PPI, Australian wages, and UK and Canadian CPI data released. All figures are expected to show rising inflationary pressure, adding the case for rate hikes through the next year.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	PPI output (q/q%)	Q3		2.6	10:45
AU	Wage price index (q/q%)	Q3	0.6	0.4	13:30
AU	Wage price index (y/y%)	Q3	2.2	1.7	13:30
UK	CPI (y/y%)	Oct	3.9	3.1	20:00
UK	CPI Core (y/y)	Oct	3.1	2.9	20:00
US	Building permits (k)	Oct	1630	1589	02:30
US	Housing starts (k)	Oct	1578	1555	02:30
CA	CPI (y/y%)	Oct	4.7	4.4	02:30
CA	CPI Core (avg y/y%)	Oct	2.7	2.7	02:30

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	0.6992	-0.8	0.6991	0.7041	CHF	0.9307	+0.6	S&P 500	4,711	+0.6	29.9		Oil (Brent)	82.68	+0.8
AUD	0.7305	-0.6	0.7302	0.7347	SEK	8.885	+0.9	Dow	36,289	+0.6	21.2		Oil (WTI)	81.14	+0.3
EUR	1.1328	-0.4	1.1320	1.1382	NOK	8.729	+0.2	Nasdaq	15,963	+0.7	33.9		Gold	1855.7	-0.6
GBP	1.3428	+0.1	1.3415	1.3473	HKD	7.787	-0.0	Stoxx 50	4,401	+0.3	27.0		HRC steel	1802.0	+0.1
JPY	114.62	+0.4	114.12	114.65	CNY	6.393	+0.2	FTSE	7,327	-0.3	14.1		CRB	237.5	+0.2
CAD	1.2561	+0.3			SGD	1.357	+0.2	DAX	16,248	+0.6	23.7		Wheat Chic.	821.5	-1.8
NZD/AUD	0.9572	-0.2			IDR	14,220	+0.1	CAC 40	7,153	-0.3	30.7		Sugar	19.96	+1.2
NZD/EUR	0.6172	-0.4			THB	32.76	+0.1	Nikkei	29,808	+0.1	14.6		Cotton	117.82	+0.2
NZD/GBP	0.5207	-0.9			KRW	1,180	+0.2	Shanghai	3,522	-0.3	5.4		Coffee	225.8	+0.4
NZD/JPY	80.14	-0.4			TWD	27.79	+0.0	ASX 200	7,420	-0.7	14.2		WM powder	4225.0	+0.0
NZD/CAD	0.8783	-0.4			PHP	50.32	+0.3	NZX 50	12,903	-0.5	1.1		Australian Futures		
NZ TWI	74.80	-0.6											3 year bond	98.785	-0.03
													10 year bond	98.12	-0.03
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		Last		Last		
USD	0.25	0.16	0.77	1.68	USD	1.63	0.01	NZGB 5 1/2 04/15/23	1.63	0.00	1 year	1.68	0.02		
AUD	0.10	0.04	0.98	2.14	AUD	1.83	0.07	NZGB 0 1/2 05/15/26	2.33	0.03	2 year	2.32	0.03		
NZD	0.50	0.86	2.33	2.73	NZD	2.67	0.03	NZGB 0 1/4 05/15/28	2.49	0.03	5 year	2.68	0.02		
EUR	0.00	0.06	-0.32	0.20	GER	-0.24	-0.01	NZGB 1 1/2 05/15/31	2.61	0.03	7 year	2.70	0.02		
GBP	0.10	0.10	1.18	1.28	GBP	0.99	0.03	NZGB 2 05/15/32	2.67	0.03	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	2.95	0.03	15 year	2.77	0.02		
CAD	0.25	0.49	1.56	2.20	CAD	1.76	0.03	NZGB 2 3/4 05/15/51	2.99	0.03					

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

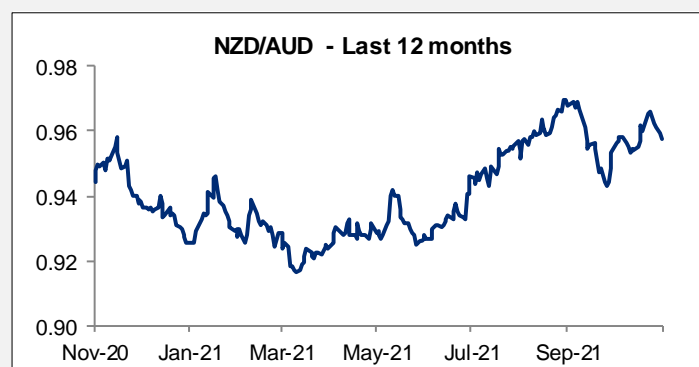
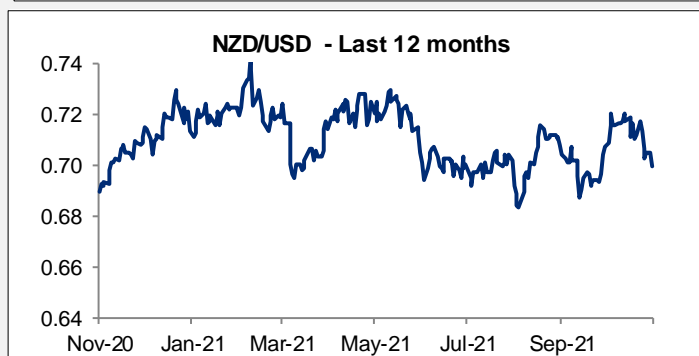
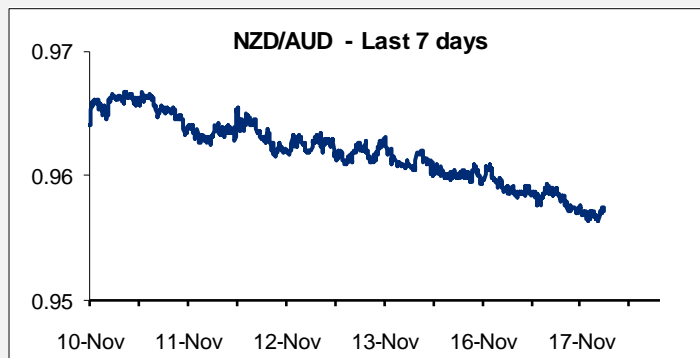
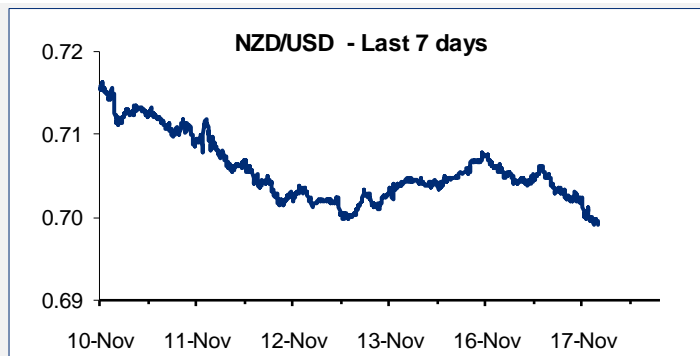
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:01

Source: Bloomberg

NZD exchange rates

17/11/2021	7:01 am	Prev. NY close
USD	0.6992	0.7048
GBP	0.5207	0.5253
AUD	0.9572	0.9593
EUR	0.6172	0.6200
JPY	80.14	80.43
CAD	0.8783	0.8821
CHF	0.6507	0.6521
DKK	4.5900	4.6109
FJD	1.4643	1.4763
HKD	5.4446	5.4895
INR	52.00	52.50
NOK	6.1032	6.1422
PKR	122.45	122.46
PHP	35.19	35.37
PGK	2.4794	2.4747
SEK	6.2121	6.2034
SGD	0.9485	0.9538
CNY	4.4698	4.4988
THB	22.86	23.06
TOP	1.5639	1.5708
VUV	77.63	78.30
WST	1.7892	1.8017
XPF	73.12	73.46
ZAR	10.8616	10.7443



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.27	-2.93
3 Months	-10.71	-10.21
6 Months	-29.80	-28.80
9 Months	-56.87	-54.91
1 Year	-88.50	-86.50

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.64	-4.87
3 Months	-19.57	-18.32
6 Months	-45.57	-43.17
9 Months	-78.42	-74.39
1 Year	-112.50	-107.78

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