

18 January 2022



Events Round-Up

CH: Retail sales (y/y%), Dec: 1.7 vs. 3.8 exp.

CH: Industrial production (y/y%), Dec: 4.3 vs. 3.7 exp.

CH: Fixed asset investment (y/y%), Dec: 4.9 vs. 4.8 exp.

CH: GDP (q/q%), Dec: 1.6 vs. 1.2 exp.

CH: GDP (y/y%), Dec: 4 vs. 3.3 exp.

Good Morning

It's been a quiet start to the week with the US cash markets closed for Martin Luther King Jr. Day. But global rates continue to trend higher, with the 10-year bund yield nearing 0% and the market moving to fully price four Fed rate hikes by the end of the year. The PBOC cut its 7-day and 1-year interest rates by 10bps yesterday, although there was limited reaction, with the market focused on the risk of an Omicron wave in the country. Equity markets are higher to start the week while currency movements have been minimal, the NZD still trading around the 0.68 mark.

There hasn't been any major economic data or central bank commentary in the US or Europe overnight but that hasn't prevented global rates from continuing to push higher as anticipation of central bank tightening builds. The 10-year German bund yield is nearing the magical 0% mark, up 2bps overnight to -0.02%, with the market bringing forward the expected timing of the first 10bps ECB hike to September this year. The US bond market is closed, but Treasury futures point to around a further 3bps increase in the 10-year rate, to above 1.80%, which would be a two-year high. Market pricing of Fed rate hikes continues to creep higher, with four hikes now fully priced for this year. The market still prices what would be a historically low peak in the US cash rate, of just 1.75%, suggesting there is ample scope for further increases in US rates as the Fed progresses through its tightening cycle.

The key market events so far this week have come out of China. The PBOC yesterday cut its 7-day repo rate and one-year medium-term loan rate to banks by 10bps (to 2.1% and 2.85% respectively). The small size of the cuts signals that PBOC continues to take a cautious and incremental approach but, in contrast to much of the rest of the world, the direction of policy is clearly set on easing in China. The rate cuts were announced shortly before Chinese GDP, which came in stronger than expected in Q4, although the annual growth rate decelerated to 4%, a very modest pace of growth by Chinese standards. The

slowdown in the property sector was a major factor dampening growth late last year.

There was limited market reaction to the rate cuts and Chinese GDP data as well as a mixed batch of monthly activity data which included higher than expected industrial production but weak retail sales. The CNY is slightly stronger to start the week and trading near a 3½-year high. The more pressing concern at present is the emergence of Omicron in the country, with cases having now been reported in both Shanghai and Beijing. The market is concerned there could be a severe hit to economic growth (and global supply chains) from China's strict zero tolerance approach, if Omicron gets a foothold in the country.

After a mixed trading session on Friday, equity markets have started the week on a generally positive note, with European indices up by 0.3% to 0.9% while US equity futures are broadly flat. Corporate earnings season continues this week, including some of the large US banks (Goldman, Morgan Stanley and Bank of America) alongside Netflix and consumer products heavyweight Procter & Gamble. Analyst expectations are for an extremely strong 22% y/y increase in S&P500 earnings in Q4, although 2022 may prove more challenging amidst rising wage and input costs and likely Fed tightening.

Also potentially lifting market sentiment, Pfizer's CEO told French media that "we will soon be able to resume a normal life", arguing that Covid testing, vaccines and treatments (such as Pfizer's Paxlovid) mean "we are well positioned to get there in the spring."

It's been a slow start to the week in the FX market with limited movement in the major currencies. The JPY is slightly weaker (-0.3%) on the back of higher US rates while the NZD, AUD and EUR are all barely changed from Friday night's close. The NZD continues to hover around the 0.68 mark.

NZ rates jumped higher to start the week, catching up to the big sell-off in US Treasury bonds on Friday night (after the local market was closed). The 2-year swap rate pushed up 4bps, to 2.25%, while the 10-year rate was 8bps higher, at 2.81%. Curve steepening has been the trend so far this year, with the shorter end of the curve relatively rangebound but longer-term rates dragged higher by global moves. The 10-year swap rate is around 10bps from its recent 3-year high, set in November.

The QSBO is released this morning and is likely to highlight an extremely capacity constrained economy with significant skills shortages. The market's focus is still fixed on next week's CPI release and the HLFS labour market report the week after. Market pricing for the OCR has been relatively steady, with a cash rate of around 2.25% pricing in by the end of the year, implying six 25bps hikes across the seven meetings in 2022.

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		Period	Cons.	Prev.	NZT
NZ	REINZ House Sales (y/y%)	Dec		-18	09:00
NZ	NZIER Business Opinion Survey (QSBO)				10:00
UK	Unemployment Rate (%)	Nov	4.2	4.2	20:00
UK	Employment Change (3m/3m, k)	Nov	128	149	20:00
GE	ZEW Survey Expectations	Jan	32	29.9	23:00
JN	BOJ 10-Yr Yield Target (%)	Jan	0	0	
US	NAHB Housing Market Index	Jan	84	84	04:00

Source: Bloomberg, BNZ

Coming Up

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	0.6799	-0.0	0.6792	0.6818	CHF	0.9141	+0.0	S&P 500	4,663	+0.1	23.7	Oil (Brent)	86.49	+0.4
AUD	0.7212	+0.1	0.7200	0.7229	SEK	9.019	-0.1	Dow	35,912	-0.6	16.5	Oil (WTI)	84.28	+0.5
EUR	1.1412	+0.0	1.1392	1.1434	NOK	8.715	-0.5	Nasdaq	14,894	+0.6	14.6	Gold	1819.2	+0.1
GBP	1.3652	-0.2	1.3637	1.3690	HKD	7.791	+0.1	Stoxx 50	4,302	+0.7	19.5	HRC steel	1435.0	-0.1
JPY	114.62	+0.4	114.31	114.65	CNY	6.348	-0.1	FTSE	7,611	+0.9	13.0	CRB	245.4	+1.0
CAD	1.2514	-0.3			SGD	1.348	+0.0	DAX	15,934	+0.3	15.6	Wheat Chic.	744.5	-0.6
NZD/AUD	0.9427	-0.3			IDR	14,324	+0.2	CAC 40	7,202	+0.3	28.3	Sugar	18.31	+1.2
NZD/EUR	0.5958	+0.0			THB	33.08	-0.4	Nikkei	28,334	+0.7	0.3	Cotton	119.70	+2.4
NZD/GBP	0.4980	+0.1			KRW	1,193	+0.5	Shanghai	3,542	+0.6	-1.5	Coffee	239.7	+1.1
NZD/JPY	77.93	+0.4			TWD	27.55	-0.1	ASX 200	7,417	+0.3	11.3	WM powder	4200	+0.2
NZD/CAD	0.8508	-0.4			PHP	51.25	+0.3	NZX 50	12,807	+0.1	-0.2	Australian Futures		
NZ TWI	72.73	-0.1										3 year bond	98.65	-0.04
												10 year bond	98.05	-0.04
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	0.24	1.16	1.85	USD	1.78	0.00	NZGB 5 1/2 04/15/23	1.54	0.00	1 year	1.78	0.03	
AUD	0.10	0.07	1.09	2.17	AUD	1.92	0.07	NZGB 0 1/2 05/15/26	2.32	0.06	2 year	2.25	0.04	
NZD	0.75	1.04	2.24	2.81	NZD	2.58	0.07	NZGB 0 1/4 05/15/28	2.43	0.06	5 year	2.67	0.06	
EUR	0.00	0.06	-0.22	0.40	GER	-0.03	0.02	NZGB 1 1/2 05/15/31	2.52	0.07	7 year	2.74	0.07	
GBP	0.25	0.52	#N/A	N/A	GBP	1.19	0.04	NZGB 2 05/15/32	2.58	0.07	10 year	2.81	0.08	
JPY	-0.04	-0.02	0.05	0.21	JPY	0.15	0.01	NZGB 1 3/4 05/15/41	2.96	0.08	15 year	2.86	0.08	
CAD	0.25	0.58	1.79	2.28	CAD	1.81	0.04	NZGB 2 3/4 05/15/51	3.02	0.08				

* 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 07:00

Source: Bloomberg

NZD exchange rates

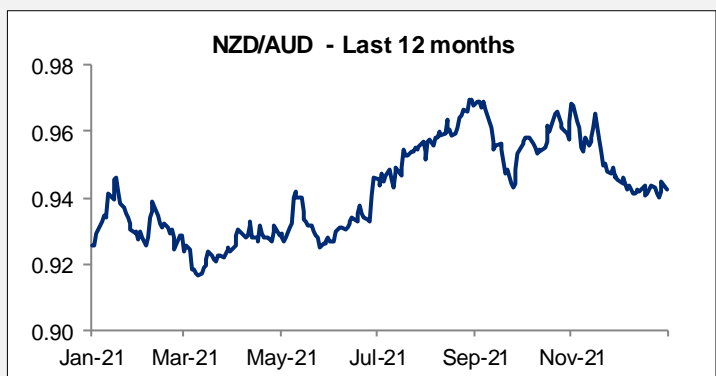
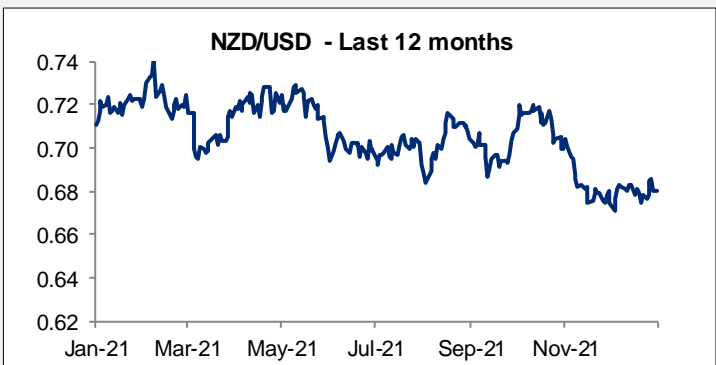
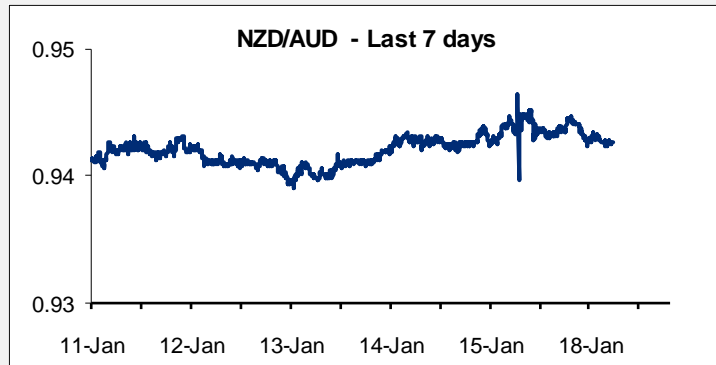
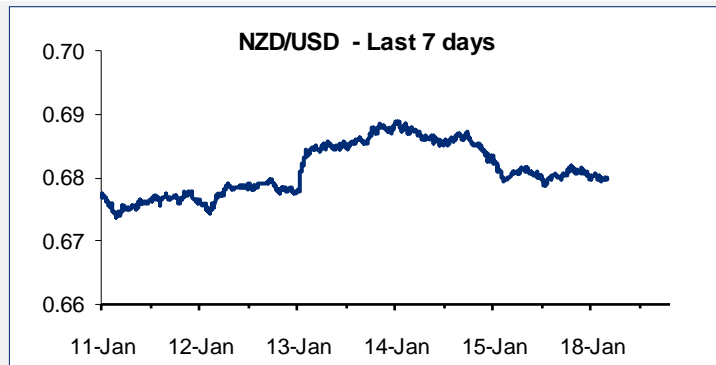
18/01/2022	6:53 a.m.	Prev. NY close
USD	0.6799	0.6804
GBP	0.4980	0.4976
AUD	0.9427	0.9440
EUR	0.5958	0.5963
JPY	77.93	77.69
CAD	0.8508	0.8540
CHF	0.6215	0.6219
DKK	4.4340	4.4375
FJD	1.4399	1.4357
HKD	5.2970	5.2966
INR	50.48	50.45
NOK	5.9251	5.9627
PKR	119.67	120.03
PHP	34.84	34.78
PGK	2.3856	2.3874
SEK	6.1317	6.1411
SGD	0.9166	0.9170
CNY	4.3163	4.3224
THB	22.50	22.60
TOP	1.5262	1.5366
VUV	76.18	76.18
WST	1.7564	1.7700
XPF	71.14	71.19
ZAR	10.4610	10.4713

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.04	-2.78
3 Months	-10.93	-10.31
6 Months	-27.26	-26.25
9 Months	-48.26	-46.39
1 Year	-70.61	-68.61

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.34	-4.39
3 Months	-19.37	-17.86
6 Months	-47.38	-45.09
9 Months	-79.55	-75.62
1 Year	-110.61	-105.97



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