

19 January 2022



Events Round-Up

NZ: REINZ house sales (y/y%), Dec: -29.4 vs. -18 prev.

JN: BoJ 10yr yield target (%), Jan: 0 vs. 0 exp.

UK: Unemployment rate (%), Nov: 4.1 vs. 4.2 exp.

UK: Payroll employment change (k), Nov: 184 vs. 130 exp.

GE: ZEW expectations, Jan: 51.7 vs. 32 exp.

US: Empire manufacturing survey, Jan: -0.7 vs. 25 exp.

US: NAHB Housing market index, Jan: 83 vs. 84 exp.

NZ: GDT dairy auction price index (%chg): 4.6 vs 0.3 prev.

Good Morning

In a continuation of this year's trends, global rates continue to push higher, putting pressure on equity markets, especially tech stocks. The US 10-year rate has reached a 2-year high, around 1.86%, with the market now putting a small chance on a 50bps Fed rate increase in March. The NASDAQ continues to struggle, down more than 2%. The USD has benefited from higher rates and the pickup in risk aversion, taking the NZD below 0.68.

The global bond market sell-off has continued overnight with further increases in US and European rates. The US 2-year rate broke above 1% in Tokyo yesterday after trading resumed following the long weekend (currently 1.04%) while the 10-year rate has pushed up to 1.86%. Again, there was no clear trigger or catalyst behind the moves, but it seems as if rates are following the typical historical pattern of increasing into the first Fed hike of the cycle. The market is now pricing more than four Fed hikes this year (around a 15% chance of a 5th hike) as well as a small chance of a 50bps Fed hike at the March meeting (around 5%). Meanwhile the UK 10-year bond rate hit a fresh 2½-year high and Germany's 10-year bund yield edged closer to the 0% mark, up 1bps on the day.

A further increase in oil prices has probably played a part in the move higher in rates, adding to already elevated inflationary pressures. Brent crude oil hit its highest level since 2014 yesterday, just above \$88 per barrel, taking its year-to-date increase to 12%. The market appears to have become more confident in the demand outlook, with Omicron appearing much less deadly than Delta, while supply increases from OPEC+ have been restrained. Meanwhile, supply disruptions in Libya and a drone attack near oil facilities in the UAE have added to supply fears.

Goldman Sachs raised its forecasts overnight, now calling for \$100 per barrel oil prices next year.

Equity markets have been under pressure amidst the continued push higher in global rates. Interest rate-sensitive tech stocks continue to underperform, with the NASDAQ off more than 2% overnight, bringing its year-to-date performance to -5.8%. The S&P500 is down 1.7%, with the Financials sector surprisingly leading declines. Banks are typically seen as beneficiaries of higher rates and a steeper curve, but this has been overshadowed by disappointing earnings from Goldman Sachs overnight, especially in terms of trading revenue. Goldman's share price is down more than 8%, following on from similarly disappointing results last week from JPM.

Against a backdrop of higher US rates and weaker equity markets, the USD is broadly stronger. The BBDXY is up 0.5% on the day and it is now back to flat year-to-date. One puzzle earlier this year had been squaring the weakness in the USD with the increase in Fed rate hike expectations and pick up in risk aversion, both of which would ordinarily be expected to help the USD appreciate. Heavy USD long positioning might have been part of the explanation, although the price action over the past few days suggests the correlation hasn't completely broken yet.

The EUR has fallen 0.75% to 1.1325 while the NZD and AUD are both off around 0.6% over the past 24 hours, with the NZD falling to around 0.6750, near its lows for the year. A strong Global Dairy Trade auction overnight, with the overall price index 4.6% higher and whole milk powder prices up 5.6% to a 7-month high of \$4,082, hasn't provided much support to the NZD.

The JPY has outperformed overnight (unchanged on the day despite a broadly stronger USD), with the pickup in risk aversion seemingly outweighing the influence of higher US rates. At yesterday's policy update, the BoJ slightly raised its inflation forecasts and upgraded its risk assessment of the inflation outlook to "balanced" for the first time since 2014. Governor Kuroda quashed speculation of an early end to its stimulatory settings, saying "raising rates is unthinkable."

Economic data overnight has been mixed and not a major driver of markets. The New York Fed's Empire manufacturing survey was very weak, with the headline index dropping to its lowest level since mid-2020. The

Omicron wave in January might have dampened optimism, but forward-looking measures were more positive, with the capital expenditure index hitting its highest level since 2006. Similar positivity about the future was seen in the German ZEW survey, which reported a sharp increase in expectations. In the UK, payrolled employment rose a stronger than expected 184k in December, while the unemployment rate edged lower to 4.1%, indicative of a tight UK labour market.

China reported another two new Omicron cases in Beijing alongside a separate case of Delta. The market remains worried about the potential fallout to growth (and global supply chains) if China needs to broaden its restrictions to eliminate Omicron ahead of the winter Olympics in a few weeks' time. On a more optimistic note, African researchers reported that vaccinated people who caught Omicron were much less likely to be subsequently infected with Delta, with the researchers suggesting this could mean Covid-19 is less disruptive going forward.

A day after it cut two of its policy rates by 10bps, the PBOC's Deputy Governor confirmed that the PBOC is now in an easing cycle, saying it would "open monetary policy tool box wider, maintain stable overall money supply and avoid a collapse in credit". Despite China being a global outlier in embarking on easier monetary policy, the CNY hit a 3-½ year high yesterday, although it has given back its gains overnight.

Turning to local developments, yesterday's QSBO business survey highlighted the intense inflationary pressures and skills shortages in the economy at present. A net 52% of businesses reported that they raised prices in Q4 with a staggering 65% saying they intended to do so this quarter, which points to the risk that CPI inflation peaks higher and/or later than we currently expect (we have pencilled in a peak of annual inflation of 5.7% for Q4/Q1). Meanwhile, employment intentions remained very strong, pointing to further declines in the unemployment rate with the border closed and firms reporting extreme difficulty finding

labour. Trading conditions, which provide a steer on activity levels, were lower in Q4, suggesting cautious on near-term GDP. Meanwhile, REINZ housing data showed a modest 0.5% seasonally adjusted fall in house prices in December (+21.5% y/y) as the housing market shows further signs of losing momentum.

NZ rates continue to outperform other markets, especially the US. The NZ 10-year swap rate was down 4bps yesterday, to 2.77%, despite US rates extending their moves higher. The 10-year spread, in swaps, has moved around 20bps lower year-to-date, to 87bps. The spread compression this year mainly reflects the more hawkish rhetoric coming out of the Fed but also, to an extent, the fact that the NZ market entered 2022 with much more tightening priced into the curve than the US.

Ahead of the Bank of Canada's policy meeting next week, Canadian CPI is released tonight, with headline inflation expected to hit a new cycle high of 4.8% y/y. The market now prices an almost 70% chance of a rate hike by the Bank of Canada next week, which would make it the fourth developed market central bank to raise rates post-Covid, following the RBNZ, BoE and Norges Bank. UK CPI is also released tonight, with headline inflation expected to nudge up to 5.2% y/y.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card Spending Retail (m/m%)	Dec		9.6	10:45
UK	CPI (y/y%)	Dec	5.2	5.1	20:00
UK	Core CPI (y/y%)	Dec	3.9	4	20:00
US	Building Permits (k)	Dec	1700	1712	02:30
US	Housing Starts (k)	Dec	1650	1679	02:30
CA	CPI (y/y%)	Dec	4.8	4.7	02:30
CA	Core CPI (avg. of 3 measures, y/y%)	Dec	2.8	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	% Year		Last	Net Day				
NZD	0.6757	-0.7	0.6754	0.6785	CHF	0.9172	+0.4		S&P 500	4,581	-1.7	21.6	Oil (Brent)	86.82	+0.4
AUD	0.7173	-0.6	0.7171	0.7205	SEK	9.140	+1.4		Dow	35,285	-1.8	14.5	Oil (WTI)	84.76	+1.1
EUR	1.1324	-0.7	1.1321	1.1406	NOK	8.819	+1.0		Nasdaq	14,565	-2.2	12.0	Gold	1811.0	-0.3
GBP	1.3577	-0.5	1.3573	1.3653	HKD	7.792	+0.0		Stoxx 50	4,258	-1.0	18.2	HRC steel	1428.0	-0.6
JPY	114.57	-0.0	114.46	114.99	CNY	6.353	+0.1		FTSE	7,564	-0.6	12.5	CRB	245.4	+1.0
CAD	1.2559	+0.3			SGD	1.352	+0.2		DAX	15,773	-1.0	13.9	Wheat Chic.	766.5	+3.0
NZD/AUD	0.9420	-0.0			IDR	14,336	+0.1		CAC 40	7,134	-1.0	27.0	Sugar	18.68	+2.1
NZD/EUR	0.5967	+0.1			THB	33.12	+0.0		Nikkei	28,257	-0.3	-1.3	Cotton	120.31	+0.6
NZD/GBP	0.4977	-0.1			KRW	1,190	-0.2		Shanghai	3,570	+0.8	0.1	Coffee	239.8	+0.0
NZD/JPY	77.41	-0.6			TWD	27.59	+0.1		ASX 200	7,409	-0.1	9.9	WM powder	4175	-0.6
NZD/CAD	0.8486	-0.2			PHP	51.47	+0.4		NZX 50	12,814	+0.1	-0.5	Australian Futures		
NZ TWI	72.46	-0.4											3 year bond	98.59	-0.05
													10 year bond	97.97	-0.08

Interest Rates													
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds	NZ Swap Yields					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last	Last				
USD	0.25	0.25	1.23	1.92	USD	1.86	0.07	NZGB 5 1/2 04/15/23	1.54	0.00	1 year	1.80	0.02
AUD	0.10	0.07	1.14	2.23	AUD	1.95	0.03	NZGB 0 1/2 05/15/26	2.31	-0.01	2 year	2.26	0.01
NZD	0.75	1.05	2.28	2.81	NZD	2.55	-0.03	NZGB 0 1/4 05/15/28	2.41	-0.02	5 year	2.65	-0.02
EUR	0.00	0.06	-0.22	0.41	GER	-0.02	0.01	NZGB 1 1/2 05/15/31	2.51	-0.02	7 year	2.72	-0.02
GBP	0.25	0.53	#N/A	N/A	GBP	1.22	0.03	NZGB 2 05/15/32	2.55	-0.03	10 year	2.79	-0.02
JPY	-0.04	-0.02	0.05	0.21	JPY	0.14	-0.01	NZGB 1 3/4 05/15/41	2.92	-0.04	15 year	2.83	-0.02
CAD	0.25	0.62	1.82	2.35	CAD	1.87	0.07	NZGB 2 3/4 05/15/51	2.98	-0.04			

* 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

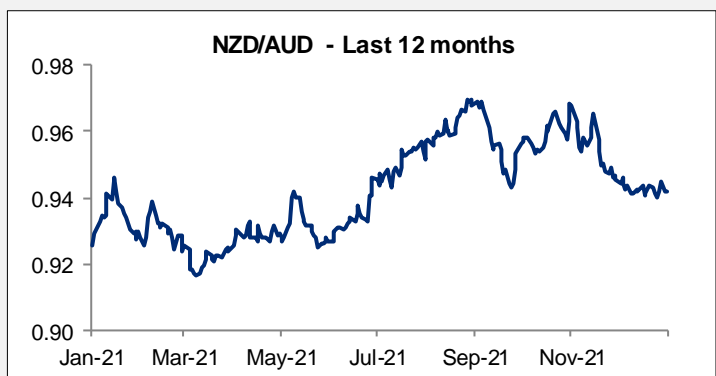
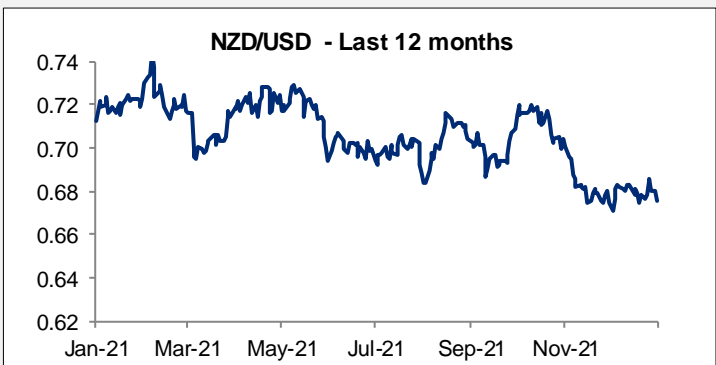
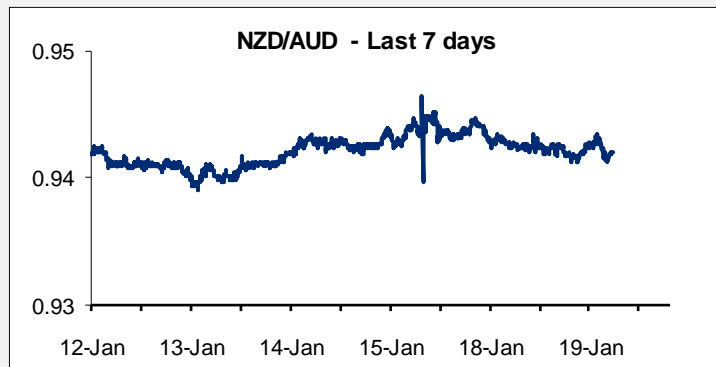
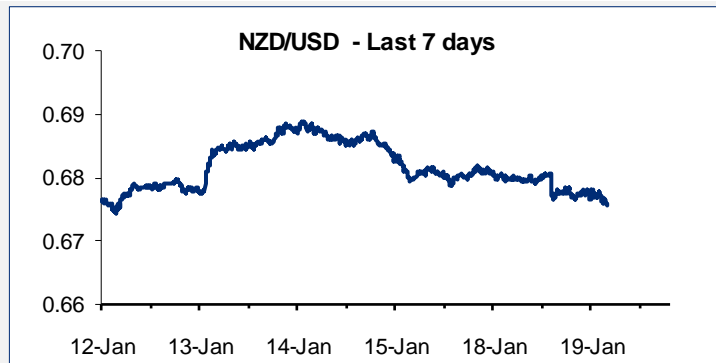
19/01/2022	6:55 a.m.	Prev. NY close
USD	0.6757	0.6801
GBP	0.4977	0.4984
AUD	0.9420	0.9424
EUR	0.5967	0.5962
JPY	77.41	77.96
CAD	0.8486	0.8512
CHF	0.6198	0.6216
DKK	4.4410	4.4366
FJD	1.4270	1.4439
HKD	5.2649	5.2985
INR	50.40	50.49
NOK	5.9588	5.9414
PKR	119.01	119.98
PHP	34.78	34.85
PGK	2.3709	2.3863
SEK	6.1756	6.1318
SGD	0.9132	0.9170
CNY	4.2927	4.3175
THB	22.39	22.51
TOP	1.5157	1.5266
VUV	75.83	76.28
WST	1.7458	1.7700
XPF	70.73	71.17
ZAR	10.4923	10.4637

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.91	-2.66
3 Months	-10.73	-10.23
6 Months	-26.75	-25.75
9 Months	-47.41	-45.41
1 Year	-69.89	-67.89

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.22	-4.64
3 Months	-19.38	-18.32
6 Months	-47.40	-45.27
9 Months	-79.47	-75.37
1 Year	-110.90	-106.14



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