

19 November 2021



Events Round-Up

NZ: RBNZ 2yr inflation expectations, Q4: 2.96 vs. 2.27 prev.

US: Initial jobless claims (k), 13-Nov: 268 vs. 260 exp.

US: Philly Fed business outlook, Nov: 39 vs. 24 exp.

Good Morning

Offshore markets have been relatively quiet overnight. There have been small gains in US equities while bond yields and the USD are slightly lower. The NZD and NZ rates were higher yesterday after a jump in the RBNZ's inflation expectations survey. The NZ 2-year swap rate hit its highest level since early 2017 with nerves running high ahead of the RBNZ's MPS next week.

There haven't been many major developments to report on overnight. Economic data have been generally positive but not market moving. US weekly jobless claims fell marginally, to a new post-Covid low, while the Philadelphia Fed's business index showed a sharp bounce in November, with new orders surging to their highest level since 1973.

New York Fed President Williams, considered one of the 'core' members of the FOMC, acknowledged that underlying US inflation had picked up and become broader based in recent months. Williams also observed that long-run inflation expectations had "moved up quite a bit", adding that he wouldn't want to see these long-run inflation expectations move significantly higher from here. US 10-year breakeven inflation hit its highest level since 2005 earlier in the week while surveyed inflation expectations have also been trending higher. Williams' comments didn't move the market although they suggest that centrist Fed officials are gradually moving in a hawkish direction. The market awaits Biden's decision on who he will nominate as Fed Chair, which should be due any day.

Global bond yields are slightly lower over the past 24 hours, with the US 10-year rate slipping 1bp, to 1.58%, and 10-year rates in Germany and UK down 3-4bps. The market has pushed back its expected timing of the first 10bps ECB rate hike to early 2023 following recent dovish comments from ECB officials and the surge in Covid cases in the region, which has led several countries to implement renewed lockdown restrictions.

After its recent strong run, the USD is weaker overnight. The BBDXY and DXY indices, which reached 12-month

highs on Wednesday night, are down by 0.1-0.3%. The EUR has recovered some lost ground, up 0.4% overnight to 1.1387. The NZD has outperformed over the past 24 hours after the RBNZ's 2-year ahead inflation expectations series hit a 10-year high (see more below). The NZD is up 0.5% from this time yesterday, at 0.7030, while the NZD/AUD cross has pushed up to 0.9665, on track for its highest close in almost two months.

Turkey's central bank cut its cash rate 100bps overnight, with the Turkish lira plunging almost 4% to a new record low. President Erdogan has replaced senior central bank officials over the past year with officials sympathetic to his unconventional view that higher interest rates are a cause of higher inflation. The policy experiment is going to be put to the test with Turkish CPI already running at around 20% y/y and the fall in the lira only likely to exacerbate inflationary pressures.

US equities are slightly higher, with the S&P500 and NASDAQ hovering just below their recent all-time highs. Strong earnings remain a supportive driver for equities, alongside ultra-low real interest rates, with chipmaker Nvidia and retailers Macy's and Kohl's all beating analysts' earnings expectations over the past 24 hours. In an encouraging sign for US consumer spending, Macy's and Kohl's both increased their full-year earnings guidance.

In Japan, the Nikkei reported that the government was planning a ¥55.7tn (~10%/GDP) fiscal stimulus, larger than previously reported, with details due to be announced today. The size of the stimulus reportedly includes loans and previously unused funds, so the net 'new' stimulus will be lower than the headline implies.

Turning to domestic developments, the RBNZ's Survey of Expectations showed 2-year ahead inflation expectations at 2.96%, much higher than the 2.27% reported last quarter. The 2-year ahead inflation expectations series tends to be contemporaneous with headline inflation, and the spike higher is to be expected given CPI printed 4.9% in Q3. 5-year and 10-year inflation expectations remain close to the 2% target midpoint, at 2.17% and 1.97% respectively, suggesting the RBNZ's inflation-fighting credibility remains intact, despite the current inflation overshoot.

NZ swap rates were already higher heading into the inflation expectations release and jumped higher in illiquid conditions into the market close, with the price action

suggesting some market participants have been caught offside. Nerves are clearly elevated ahead of the RBNZ's MPS next week. The market is pricing just over a 40% chance of a 50bps hike next week and 72bps in total over the next two meetings (i.e. a high chance of a 50bps move at one of the November or February meetings). The 2-year swap rate closed 8bps higher on the day, at 2.43%, a striking move given that US and Australian rates were lower yesterday. The 2-year rate is trading at its highest level since 2017. Meanwhile, the yield curve continues to relentlessly flatten with the 10-year swap rate up 'just' 3bps yesterday, at 2.75%.

It was a completely different story in the NZGB market, with a very strong government bond tender setting the stage for sizeable falls in long-term bond yields and a big widening in swap spreads. The 10-year bond yield fell 4bps, to 2.58%, while the 30-year yield was down 6bps. Government bonds appear to be attracting offshore demand again with offshore volatility settling down and NZ yields standing out like a beacon compared to other markets like Australia and the US.

Fed officials Clarida and Waller are both speaking tonight, and the market will be listening out for any change in tone after the big inflation surprise earlier in the month. It's also possible we could get an announcement from Biden on his nomination for the next Fed Chair, with betting markets and economists still favouring Powell to win a second term.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	CPI Ex Fresh Food, Energy (y/y%)	Oct	-0.7	-0.5	12:30
UK	Retail Sales Ex Auto Fuel (m/m%)	Oct	0.6	-0.6	20:00
UK	BOE Chief Economist Huw Pill speaks in Bristol				01:00
US	Fed's Waller Discusses the Economic Outlook				04:45
US	Fed's Clarida Discusses Global Mon. Pol. Coordination				06:15

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	0.7034	+0.5	0.7008	0.7053	CHF	0.9253	-0.3		S&P 500	4,707	+0.4	31.9	Oil (Brent)	80.96	+0.8
AUD	0.7276	+0.1	0.7250	0.7293	SEK	8.880	+0.2		Dow	35,863	-0.2	21.8	Oil (WTI)	78.85	+0.5
EUR	1.1371	+0.4	1.1314	1.1374	NOK	8.805	+0.7		Nasdaq	15,957	+0.2	35.2	Gold	1864.0	-0.3
GBP	1.3497	+0.1	1.3464	1.3514	HKD	7.788	+0.0		Stoxx 50	4,384	-0.4	25.9	HRC steel	1798.0	-0.2
JPY	114.23	+0.1	113.98	114.48	CNY	6.386	+0.1		FTSE	7,256	-0.5	13.6	CRB	236.1	-0.6
CAD	1.2601	-0.1			SGD	1.356	+0.1		DAX	16,222	-0.2	22.9	Wheat Chic.	833.0	+0.0
NZD/AUD	0.9667	+0.4			IDR	14,220	-0.2		CAC 40	7,142	-0.9	29.6	Sugar	20.25	-0.9
NZD/EUR	0.6186	+0.1			THB	32.58	-0.1		Nikkei	29,599	-0.3	15.5	Cotton	117.75	-1.6
NZD/GBP	0.5212	+0.4			KRW	1,180	-0.2		Shanghai	3,521	-0.5	4.7	Coffee	230.0	-2.1
NZD/JPY	80.35	+0.6			TWD	27.80	-0.1		ASX 200	7,379	+0.1	12.7	WM powder	4165.0	-0.6
NZD/CAD	0.8864	+0.4			PHP	50.24	-0.3		NZX 50	12,800	-0.3	1.9	Australian Futures		
NZ TWI	75.21	+0.5											3 year bond	98.87	0.03
													10 year bond	98.17	0.02

Interest Rates							NZ Government Bonds				NZ Swap Yields		
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	Net Day	Last	Last	Last	Last	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	0.25	0.16	0.74	1.63	USD	1.58	-0.01	NZGB 5 1/2 04/15/23	1.65	0.02	1 year	1.80	0.11
AUD	0.10	0.04	0.91	2.12	AUD	1.80	-0.07	NZGB 0 1/2 05/15/26	2.34	0.00	2 year	2.43	0.08
NZD	0.50	0.87	2.43	2.78	NZD	2.63	-0.04	NZGB 0 1/4 05/15/28	2.48	-0.01	5 year	2.76	0.05
EUR	0.00	0.06	-0.35	0.18	GER	-0.28	-0.03	NZGB 1 1/2 05/15/31	2.58	-0.03	7 year	2.77	0.04
GBP	0.10	0.11	1.10	1.19	GBP	0.93	-0.04	NZGB 2 05/15/32	2.63	-0.04	10 year	2.78	0.03
JPY	-0.05	-0.09	0.01	0.13	JPY	0.08	0.00	NZGB 1 3/4 05/15/41	2.90	-0.05	15 year	2.83	0.03
CAD	0.25	0.49	1.52	2.13	CAD	1.70	0.00	NZGB 2 3/4 05/15/51	2.94	-0.06			

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

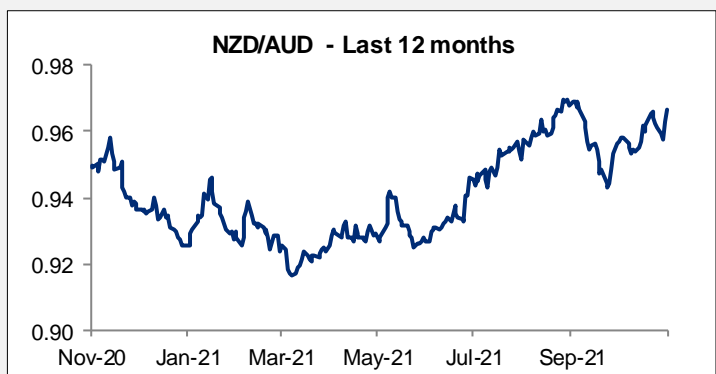
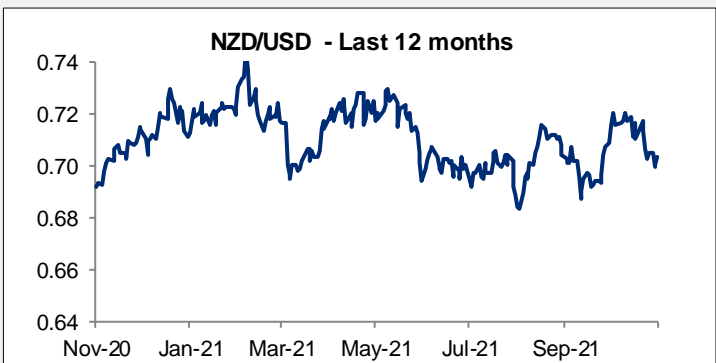
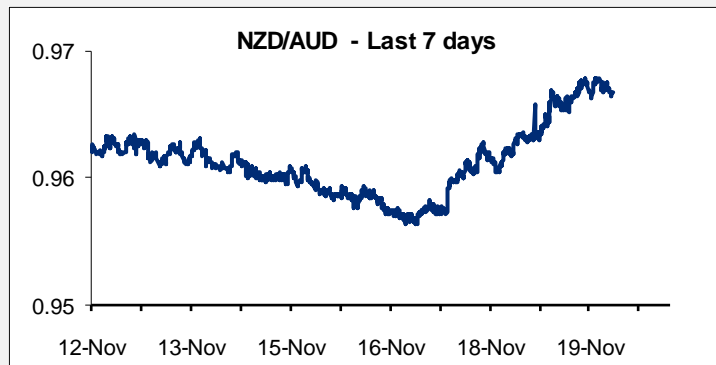
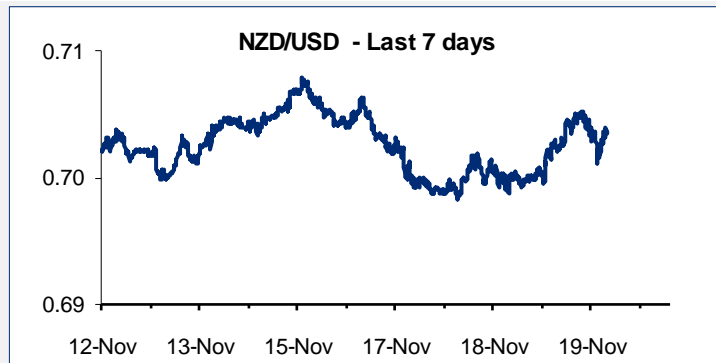
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:51

Source: Bloomberg

NZD exchange rates

19/11/2021	6:51 a.m.	Prev. NY close
USD	0.7034	0.6998
GBP	0.5212	0.5189
AUD	0.9667	0.9630
EUR	0.6186	0.6183
JPY	80.35	79.83
CAD	0.8864	0.8824
CHF	0.6509	0.6498
DKK	4.6004	4.5972
FJD	1.4799	1.4680
HKD	5.4784	5.4500
INR	52.22	51.98
NOK	6.1936	6.1216
PKR	122.44	121.59
PHP	35.34	35.27
PGK	2.4681	2.4624
SEK	6.2463	6.2032
SGD	0.9541	0.9487
CNY	4.4920	4.4633
THB	22.92	22.89
TOP	1.5768	1.5582
VUV	78.56	78.04
WST	1.8071	1.7891
XPF	73.64	73.30
ZAR	10.9704	10.8506



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.90	-3.58
3 Months	-12.16	-11.64
6 Months	-33.53	-32.53
9 Months	-63.07	-61.32
1 Year	-97.09	-95.08

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.50	-5.69
3 Months	-21.69	-20.43
6 Months	-51.56	-49.21
9 Months	-89.12	-85.00
1 Year	-128.79	-124.04

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