Markets Today

20 April 2022

Events Round-Up

NZ: Performance Services Index (PSI), Mar: 51.6 vs. 48.9 prev.

US: Building permits (k), Mar: 1873 vs. 1820 exp.

US: Housing starts (k), Mar: 1793 vs. 1740 exp.

NZ: GDT dairy auction price index (%): -3.6 vs. -1 prev.

Good Morning

Global rates continue their relentless trend higher. The US 10-year rate is closing in on 3% while the 10-year real yield approaching 0%. As US rates march higher, USD/JPY continues to explode to the upside, with the currency pair hitting a fresh 20-year high of around 128.90 overnight. Movements in other currencies have been more restrained and the NZD has consolidated above 0.6720 overnight. Meanwhile, US equity markets have rebounded from their falls over the long weekend as earnings season kicks into gear.

The bear market in bonds continues apace. The US 10-year rate has pushed on to 2.91%, 6bps higher than yesterday's close, and nearing the 3% mark for the first time since late 2018. Incredibly, the US 10-year rate has increased 115bps in the space of just six weeks. Only twice over the past thirty years have there been moves as quick as this, once during the GFC (as central banks slashed rates) and again during 2003 (as the markets anticipated the end of the Fed's post-dotcom easing cycle). Indeed, the 115bps increase over the past six weeks is comparable to the average *annual* trading range in the 10-year rate over the past 20 years. That's some move.

The move higher in US rates has been real-yield led, with the 10-year TIPs yield rising 5bps, to -0.04%. The 10-year real yield hasn't been positive since the start of 2020. The sharp increase in real rates is consistent with the Fed's intention to aggressively tighten monetary policy in an attempt to contain inflation.

Bond rates are higher across the globe, with Germany's 10-year rate up 7bps to 0.91%, its highest level since 2015 while the UK 10-year rate is up 8bps, almost touching 2% for the first time since early 2016. In New Zealand, rates were 5-6bps higher across the swap curve in thin, post-holiday trading yesterday, and those moves are likely to extend further when trading opens this morning. The NZ 10-year swap rate is near its highest level since 2015, around 3.73%.

There hasn't been a clear catalyst for the overnight increase in bond rates, although Fed rhetoric remains firmly hawkish. Chicago Fed President Evans, traditionally viewed as one of the doves on the committee, said the Fed would "probably" raise its cash rate above neutral, seen to be around 2.5%, given inflation is likely to still be some way above target by the end of the year. Meanwhile, known Fed hawk Bullard said yesterday he "wouldn't rule out" a 75bps rate hike, although his preferred option was to move in 50bps steps to take the cash rate to 3.5% by year-end. The US 2-year rate is 13bps higher overnight amidst rising Fed rate hike expectations, taking it back to near its recent three-year highs, at around 2.57%.

USD/JPY continues to blast higher, in line with the relentless upward trend in US Treasury yields. USD/JPY, which started the month below 120, has reached a fresh 20-year high of around 128.90 overnight, some 1.4% higher over the past 24 hours. The BoJ continues to suppress the 10-year Japan yield under its Yield Curve Control policy, so the increase in US Treasury rates is mechanically widening the US-Japan interest rate differential, in turn putting downward pressure on the JPY. The 130 level is now in sight and the market appears in a mood to push the JPY lower until it generates a policy response from the BoJ. Finance Minister Suzuki's warning that "we are monitoring moves in the foreign exchange market with a strong sense of vigilance" fell on deaf ears. The BoJ is in an unenviable position. Core inflation is still too low for comfort, and hardly conducive to monetary policy tightening, but political pressure is growing about the weakness in the JPY, which is exacerbating imported costs, including for petrol.

The Swiss franc is the other laggard amongst the G10 currencies overnight, down by 0.7%. Like the BoJ, the SNB is yet to embrace monetary policy tightening, with the central bank maintaining a policy interest rate of -0.75%. Other currencies moves have been unremarkable. The EUR is barely changed over the past 24 hours, hovering just below 1.08. Likewise, the NZD has consolidated just above 0.6720 since yesterday morning. The weakness in the JPY has seen NZD/JPY increase 1.5% to around 86.60, on track for its highest close since mid-2015.

The AUD showed little reaction to yesterday's release of the RBA minutes which suggested the central bank is

planning to increase rates in June, after it has reviewed both CPI and wage data over the next few months and after the Federal election takes place. The NZD/AUD cross is trading close to its lowest level since August 2020, at around 0.9125.

US equity markets have rebounded from their falls over the long weekend, with the NASDAQ jumping 1.7% and the S&P500 rising 1.3%. Almost 80% of companies have beaten Q1 earnings expectations so far, including Johnson & Johnson overnight, although it is still relatively early in the earnings season. Equity markets remain surprisingly resilient to the abrupt repricing in Fed rate hike expectations and downward revisions to growth estimates.

On that note, the IMF added its voice to the chorus of global growth warnings, cutting its global growth forecast for this year to 3.6%, from 4.4% in January, due to the Russia-Ukraine war. A modelled scenario of a Russian oil and gas embargo would further knock global growth, pushing it 2% below the IMF's baseline forecasts next year, while inflation would be even higher.

Dairy prices fell 3.6 % at auction overnight, according to the GDT Price Index, their third successive fall. Whole milk powder prices were 4.4% lower, leaving them 11.5% below their recent peak from early March, although they are still at relatively high levels on a historical basis. Fonterra has cited the lockdowns in China amongst factors which have recently dampened demand.

In a recorded interview (with the IMF) released yesterday morning, Governor Orr set out the difficult policy challenge facing the RBNZ (and other central banks) at present. The balance of risks was "very much weighted to constraining inflation expectations" at present, and last week's 50bps hike was taken by the RBNZ in that context. However, while the RBNZ is clearly on a tightening path, Orr acknowledged that overtightening could tip the economy into a recession. Likewise, Orr repeated the message from the MPR that last week's 50bps OCR hike was about bringing forward tightening, not necessarily doing more in total. Compared to still very elevated market pricing – which indicates the RBNZ will take the OCR to almost 4% next year – Orr's messaging was arguably more balanced around how much tightening might ultimately be needed.

The NZ PSI index (the Services PMI) rebounded back into expansionary territory in March, the first time it has been above the 50 threshold in eight months. New orders jumped to 60.1 in March, providing some hope that the services sector will bounce back as New Zealand moves into the orange traffic-light setting and the international border reopens.

There are three Fed officials on the speaking circuit tonight – Daly, Bostic, and Evans (again). Tomorrow should be more eventful with NZ CPI released (we are in line with consensus with our 2% q/q / 7.1% y/y pick) and Fed Chair Powell speaking tomorrow night ahead of the blackout window before the Fed's May meeting.

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Coming Up

		Period	Cons.	Prev.	NZT
CH	1-Year Loan Prime Rate (%)	Apr	3.65	3.7	13:15
CH	5-Year Loan Prime Rate (%)	Apr	4.55	4.6	13:15
CA	CPI (y/y%)	Mar	6.1	5.7	00:30
CA	Core CPI - common measure (y/y%)	Mar	2.7	2.6	00:30
US	Existing Home Sales (m)	Mar	5.78	6.02	02:00
US	Fed's Daly Discusses the Outlook				02:30
US	Fed's Evans Discusses the Economic and Policy Outlook				03:30
US	Fed's Bostic Discusses Equity in Urban Development				05:00
US	U.S. Federal Reserve Releases Beige Book				06:00

Source: Bloomberg, BNZ

Foreign Exchange

Indicative overnight ranges (*)

	Last	% Day	Low	High
NZD	0.6730	+0.0	0.6722	0.6764
AUD	0.7373	+0.4	0.7351	0.7400
EUR	1.0788	+0.1	1.0782	1.0814
GBP	1.2999	-0.2	1.2981	1.3041
JPY	128.73	+1.4	127.78	128.91
CAD	1.2621	+0.1		
NZD/AUD	0.9128	-0.3		
NZD/EUR	0.6238	-0.1		
NZD/GBP	0.5177	+0.1		
NZD/JPY	86.64	+1.4		
NZD/CAD	0.8494	+0.1		
NZ TWI	73.22	+0.2		

Other FX

	Last	% Day
CHF	0.9514	+0.7
SEK	9.554	-0.5
NOK	8.836	-0.4
HKD	7.843	-0.0
CNY	6.394	+0.4
SGD	1.368	+0.4
IDR	14,340	-0.1
THB	33.80	+0.3
KRW	1,237	+0.2
TWD	29.23	+0.0
PHP	52.46	+0.4

Equities

Major Indices

	Last	% Day	% Year
S&P 500	4,441	+1.3	6.7
Dow	34,802	+1.3	2.1
Nasdaq	13,561	+1.8	-2.5
Stoxx 50	3,831	-0.5	-4.1
FTSE	7,601	-0.2	8.8
DAX	14,153	-0.1	-7.2
CAC 40	6,535	-0.8	4.8
Nikkei	26,985	+0.7	-7.3
Shanghai	3,194	-0.0	-8.0
ASX 200	7,565	+0.6	7.8
NZX 50	11,836	-0.5	-6.6

Commodities**

Price

	Last	Net Day
Oil (Brent)	107.41	-5.6
Oil (WTI)	102.73	-5.6
Gold	1955.7	-1.4
HRC steel	1462.0	-1.2
CRB	315.9	+1.3
Wheat Chic.	1105.8	-2.0
Sugar	19.74	-2.6
Cotton	139.68	-3.6
Coffee	221.7	-0.9
WM powder	4160	-2.1

Australian Futures

3 year bond	97.31	-0.09
10 year bond	96.86	-0.07

Interest Rates

	Rates	Swap Yields		
	Cash	3Mth	2 Yr	10 Yr
USD	0.50	1.06	2.82	2.97
AUD	0.10	0.36	2.41	3.35
NZD	1.50	1.91	3.55	3.73
EUR	0.00	0.06	0.72	1.64
GBP	0.75	1.12	2.22	2.02
JPY	-0.03	-0.02	0.09	0.42
CAD	1.00	1.54	2.94	3.25

Benchmark 10 Yr Bonds

	Last	Net Day
USD	2.91	0.06
AUD	3.07	0.10
NZD	3.47	0.06
GER	0.91	0.07
GBP	1.97	0.08
JPY	0.25	0.00
CAD	2.82	0.03

NZ Government Bonds

	Last	
NZGB 5 1/2 04/15/23	2.61	0.06
NZGB 0 1/2 05/15/26	3.36	0.06
NZGB 0 1/4 05/15/28	3.41	0.06
NZGB 1 1/2 05/15/31	3.45	0.05
NZGB 2 05/15/32	3.47	0.06
NZGB 1 3/4 05/15/41	3.57	0.05
NZGB 2 3/4 05/15/51	3.62	0.06

NZ Swap Yields

	Last	
1 year	3.04	0.05
2 year	3.55	0.05
5 year	3.69	0.05
7 year	3.71	0.06
10 year	3.73	0.06
15 year	3.70	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 07:01

Source: Bloomberg

NZD exchange rates

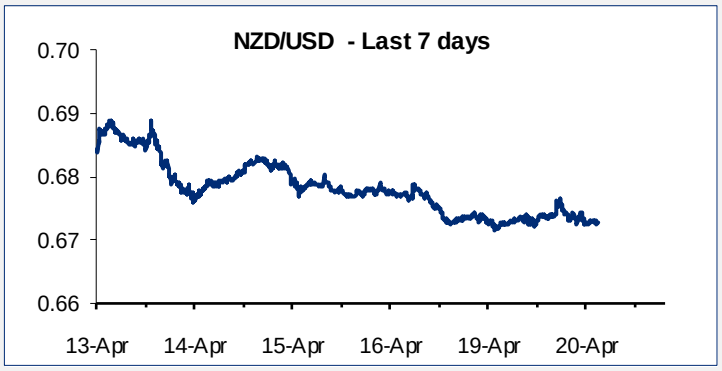
20/04/2022	7:01 a.m.	Prev. NY close
USD	0.6730	0.673
GBP	0.5177	0.5169
AUD	0.9128	0.9158
EUR	0.6238	0.6242
JPY	86.64	85.46
CAD	0.8494	0.8489
CHF	0.6403	0.6357
DKK	4.6409	4.6428
FJD	1.4274	1.4240
HKD	5.2782	5.2783
INR	51.49	51.33
NOK	5.9465	5.9686
PKR	124.12	122.86
PHP	35.31	35.18
PGK	2.3647	2.3401
SEK	6.4296	6.4608
SGD	0.9203	0.9166
CNY	4.3028	4.2851
THB	22.71	22.66
TOP	1.5053	1.4939
VUV	75.44	74.97
WST	1.7348	1.7361
XPF	74.51	74.22
ZAR	10.0879	9.8620

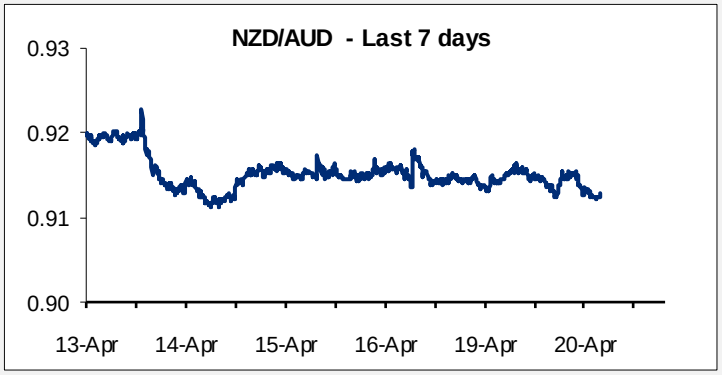
NZD/USD Forward Points

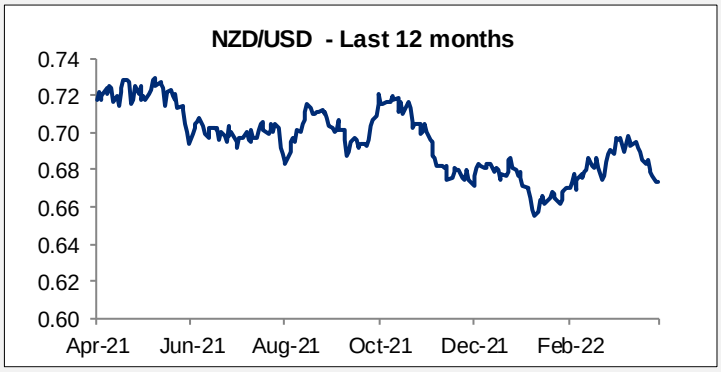
	BNZ buys NZD	BNZ sells NZD
1 Month	-2.96	-2.52
3 Months	-10.31	-9.58
6 Months	-24.37	-22.53
9 Months	-38.22	-36.22
1 Year	-47.10	-44.60

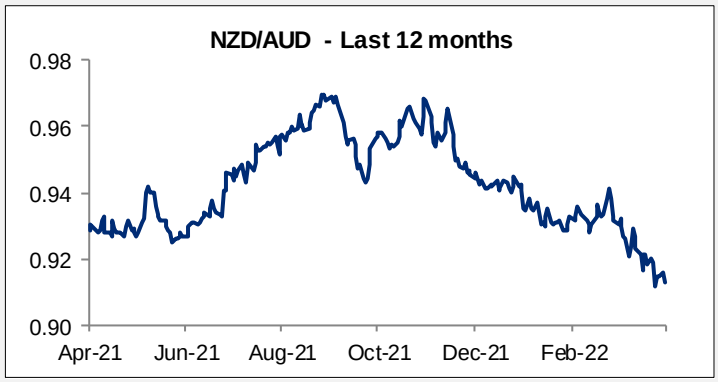
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.74	-7.83
3 Months	-30.22	-28.73
6 Months	-64.05	-60.22
9 Months	-91.51	-87.52
1 Year	-108.09	-102.26









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