

20 January 2022



Events Round-Up

NZ: Card spending, total (m/m%), Dec: 1.9 vs. 9.1 prev.

UK: CPI (y/y%), Dec: 5.4 vs. 5.2 exp.

UK: Core CPI (y/y%), Dec: 4.2 vs. 3.9 exp.

US: Building permits (k), Dec: 1873 vs. 1700 exp.

US: Housing starts (k), Dec: 1702 vs. 1650 exp.

CA: CPI (y/y%), Dec: 4.8 vs. 4.8 exp.

CA: Core CPI (avg. of 3 measures, y/y%), Dec: 2.9 vs. 2.8 exp.

Good Morning

The global bond sell-off has paused overnight, but not before the 10-year German bund yield hit 0% for the first time since 2019. Equity markets are slightly higher while the USD is weaker. The NZD has gravitated back towards the 0.68 mark. Yesterday saw a huge move higher in short-end NZ rates in thin market conditions, with investors seemingly reluctant to stand in the way ahead of what is likely to be another very strong CPI release next week.

The global bond market has taken a breather overnight after its sharp sell-off so far this year. Bond rates initially pushed higher, with the German 10y bund yield rising above 0% for the first time since mid-2019 and the 10-year US bond rate hitting a fresh 2-year high of 1.90%, but those moves have reversed over the past few hours (US 10-year now 1.84%, German 10-year now -0.01%). A pause in the bond market sell-off was likely at some point given the speed of the recent move and heavy investor positioning in favour of higher US and European rates. But higher global rates still look very likely for this year as the Fed and other central banks start their tightening cycles.

Continuing the recent global pattern, both UK and Canadian CPI inflation surprised on the upside overnight. UK headline inflation hit its highest level since the early-1990s, at 5.4% y/y, while core inflation picked up to 4.2%. In Canada, headline inflation hit a 30-year high of 4.8%, matching expectations, but, importantly ahead of the Bank of Canada's policy meeting next week, core inflation came in higher than expected, at 2.9% y/y (using an average of the BoC's three measures), also a 30-year high. The global trends of strong demand for goods, supply chain disruptions, and fast rising labour costs and commodity prices has been a potent inflationary cocktail. Illustrating

how broad-based and significant the inflationary shock has been, the Citi Global Inflation Surprise index is more than two times its previous record high (dating back to 1998).

The market prices a 70% chance that the Bank of Canada raises rates next week and a greater than 90% chance that the Bank of England hikes in February. Overnight, Bank of England Governor Bailey said that the central bank "can and will do" everything it can to control inflation. He earlier told MPs that the Bank was concerned that gas prices might stay higher for longer and that an extremely tight labour market, with job vacancies at a record high level, was creating greater wage pressure, with potentially inflationary consequences.

Equity markets are slightly higher overnight, with strong earnings results and some stability in bond rates providing support. The NASDAQ was down as much as 0.7% at one point, putting it in 'correction' territory (defined as a 10% fall from its high in November), but it has since recovered and is now up around 0.5% on the day. The S&P500 and most European markets are also slightly positive on the session. Commodity prices are also higher, by around 1.5% for Brent crude oil and 2% for copper, helped by expectations of Chinese policy easing measures and supply concerns in the oil market.

In a good sign for the global economy, consumer goods giant Procter and Gamble raised its forecast for sales growth this year while adding that it plans to raise prices on its products to keep up with higher input costs. Meanwhile, Bank of America shares increased after its earnings report, with the firm saying it was "pretty optimistic" around loan growth this year and, with the Fed expected to be raising rates, that it expected net interest income to experience "robust" growth.

The USD is weaker overnight amidst the recovery in risk appetite. The BBDXY index is down around 0.2%, paring its gains over the past week and leaving it close to flat year-to-date. Commodity currencies have outperformed, except the CAD, with the AUD up by around 0.7% over the past 24 hours and the NZD around 0.6%. The NZD has gravitated back towards the 0.68 mark, close to where it started the year.

Turning to local developments, yesterday saw a huge move higher in NZ rates, especially at the shorter end of the yield curve, with the 2-year swap rate up by 16bps, to 2.42%. Emphasising just how big the move was, this was the third

largest daily change in the 2-year swap rate post-Covid. The other two instances occurred in October last year, one after the shocking high NZ CPI release and the other on the day that RBA decided to walk away from its Yield Curve Control Policy.

NZ rates opened higher yesterday, following the trend in global rates the previous night, but the move gained momentum later in the day after one of the local banks revised its OCR call for a 3% peak in the cash rate. Even so, given this was the third largest daily change in the 2-year swap since March last year, market positioning and thin liquidity were clearly factors exacerbating the moves. Appetite to take the other side of the move appeared limited, with memories of the brutal reaction to the last CPI release still fresh and offshore rates continuing to push higher during the local trading session yesterday. We might see some correction this morning given the overnight falls in bond rates and confirmation that two people in Auckland have been infected with Omicron, one of which was in the community earlier this week.

Emphasising that this was as much to do with poor positioning in the rates market as any fundamental story, there was only a small appreciation in the NZD during the local trading session yesterday. The NZD/AUD cross, which tends to have a better relationship with interest rate differentials than the NZD/USD, is slightly lower over the past 24 hours, at around 0.94.

In Australia, the 10-year rate pushed above 2% for the first time since October with what looked like 'well informed' media articles suggesting RBA QE will come to a hard stop in February. The monthly Australian employment release is out this afternoon with our NAB colleagues looking for the unemployment rate to drop to a 13-year low of 4.4%,

which would be represent yet another positive surprise for the RBA. The December employment report pre-dates the Australian Omicron wave, although expectations are that case numbers will peak relatively soon with minimal lasting disruption to the jobs market. Australia also has its CPI release next week and NAB are looking for core inflation to hit 2.5% y/y, the midpoint of the RBA's 2-3% target range, a full two-years ahead of schedule. The market prices more than four RBA hikes for this year.

Analysts think there is a good chance the PBOC follows up its 10bps rate cuts to 7-day and 1-year rates earlier in the week by lowering the 5-year prime loan rate today. In the US, the Philadelphia Fed business survey is also worth keeping an eye on after the very weak Empire survey (which covers the New York region) on Tuesday night. The ECB minutes are also released.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Truckometer (m/m%)	Dec		4.6	10:00
NZ	Food Prices (m/m%)	Dec		-0.6	10:45
AU	Employment Change (k)	Dec	60	366.1	13:30
AU	Unemployment Rate (%)	Dec	4.5	4.6	13:30
CH	5-Year Loan Prime Rate (%)		43831	4.65	4.65 14:30
EC	ECB Publishes Account of December 2021 Policy Meeting				01:30
US	Initial Jobless Claims (k)		42005	225	230 02:30
US	Philadelphia Fed Business Outlook	Jan	19	15.4	02:30
US	Existing Home Sales (m)	Dec	6.43	6.46	04:00

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	0.6793	+0.4	0.6777	0.6812	CHF	0.9157	-0.2		S&P 500	4,591	+0.3	20.9	Oil (Brent)	88.60	+1.2
AUD	0.7227	+0.6	0.7179	0.7238	SEK	9.101	-0.4		Dow	35,395	+0.0	14.4	Oil (WTI)	87.09	+2.0
EUR	1.1343	+0.2	1.1327	1.1357	NOK	8.762	-0.5		Nasdaq	14,577	+0.5	10.5	Gold	1841.3	+1.6
GBP	1.3624	+0.2	1.3588	1.3649	HKD	7.791	-0.0		Stoxx 50	4,268	+0.2	18.7	HRC steel	1438.0	+0.7
JPY	114.30	-0.3	114.21	114.55	CNY	6.345	-0.1		FTSE	7,590	+0.3	13.1	CRB	247.1	+0.7
CAD	1.2489	-0.2			SGD	1.348	-0.2		DAX	15,810	+0.2	14.4	Wheat Chic.	796.8	+3.3
NZD/AUD	0.9399	-0.3			IDR	14,364	+0.2		CAC 40	7,173	-0.7	28.1	Sugar	19.05	+2.1
NZD/EUR	0.5989	+0.2			THB	32.92	-0.5		Nikkei	27,467	-2.8	-3.7	Cotton	123.80	+2.4
NZD/GBP	0.4986	+0.1			KRW	1,191	+0.1		Shanghai	3,558	-0.3	-0.7	Coffee	244.1	+1.9
NZD/JPY	77.64	+0.1			TWD	27.63	+0.2		ASX 200	7,332	-1.0	8.3	WM powder	4400	-0.2
NZD/CAD	0.8484	+0.2			PHP	51.50	+0.1		NZX 50	12,612	-1.6	-3.2	Australian Futures		
NZ TWI	72.67	+0.1											3 year bond	98.61	0.02
													10 year bond	97.99	0.02
Interest Rates															
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields					
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day		Last		Last				
USD	0.25	0.25	1.20	1.89	USD	1.84	-0.04	NZGB 5 1/2 04/15/23	1.64	0.10	1 year	1.89	0.09		
AUD	0.10	0.07	1.13	2.21	AUD	2.00	0.05	NZGB 0 1/2 05/15/26	2.43	0.13	2 year	2.42	0.16		
NZD	0.75	1.05	2.43	2.87	NZD	2.61	0.06	NZGB 0 1/4 05/15/28	2.51	0.10	5 year	2.78	0.13		
EUR	0.00	0.06	-0.23	0.41	GER	-0.01	0.01	NZGB 1 1/2 05/15/31	2.58	0.08	7 year	2.83	0.11		
GBP	0.25	0.54	1.18	1.18	GBP	1.26	0.04	NZGB 2 05/15/32	2.61	0.06	10 year	2.87	0.09		
JPY	-0.04	-0.02	0.05	0.20	JPY	0.14	0.00	NZGB 1 3/4 05/15/41	2.95	0.03	15 year	2.91	0.08		
CAD	0.25	0.67	1.82	2.33	CAD	1.87	-0.03	NZGB 2 3/4 05/15/51	3.00	0.02					

* 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 06:54

Source: Bloomberg

NZD exchange rates

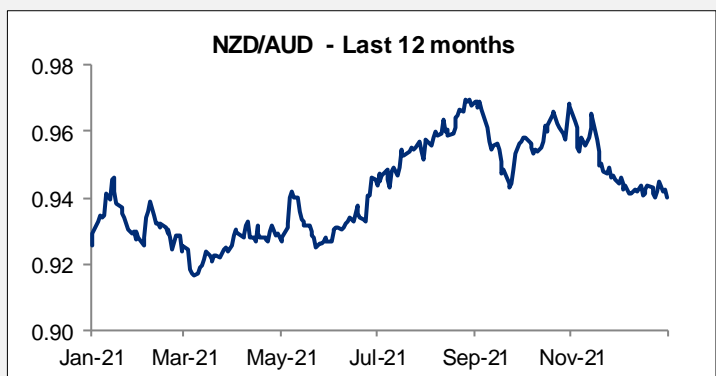
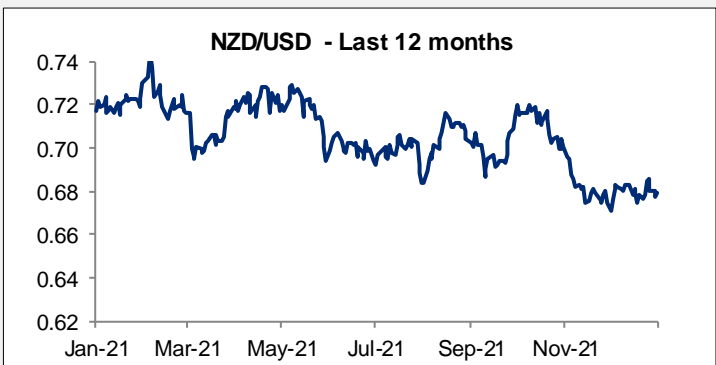
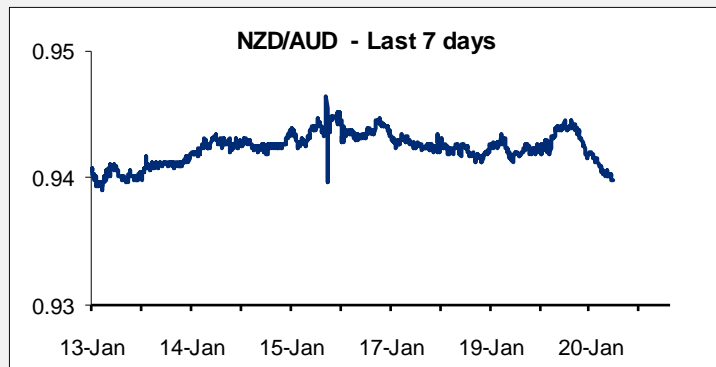
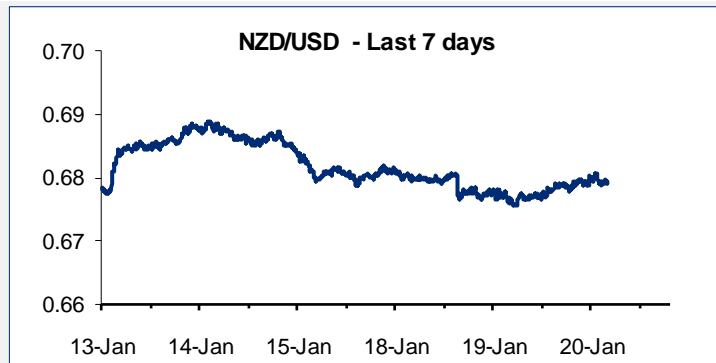
20/01/2022	6:54 a.m.	Prev. NY close
USD	0.6793	0.677
GBP	0.4986	0.4979
AUD	0.9399	0.9422
EUR	0.5989	0.5978
JPY	77.64	77.59
CAD	0.8484	0.8472
CHF	0.6220	0.6211
DKK	4.4572	4.4486
FJD	1.4404	1.4392
HKD	5.2924	5.2754
INR	50.56	50.49
NOK	5.9520	5.9634
PKR	119.68	119.43
PHP	34.98	34.85
PGK	2.3835	2.3754
SEK	6.1822	6.1870
SGD	0.9154	0.9143
CNY	4.3102	4.3010
THB	22.43	22.43
TOP	1.5224	1.5183
VUV	76.31	75.92
WST	1.7546	1.7564
XPF	71.49	71.04
ZAR	10.4159	10.5076

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.87	-2.54
3 Months	-10.91	-10.41
6 Months	-28.06	-27.06
9 Months	-50.63	-48.66
1 Year	-75.13	-73.13

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.14	-4.42
3 Months	-19.51	-18.32
6 Months	-48.42	-46.11
9 Months	-81.68	-77.66
1 Year	-114.17	-109.41



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