

20 September 2021



## Events Round-Up

NZ: BNZ Manufacturing PMI, Aug: 40.1 vs. 62.7 prev.  
 UK: Retail sales ex auto fuel (m/m%), Aug: -1.2 vs. 0.8 exp.  
 US: Uni. Michigan consumer sentiment, Sep: 71 vs. 72 exp.  
 US: Uni. Michigan 5-10yr inflation expectations, Sep: 2.9 vs. 2.9 prev.

## Good Morning

Markets traded with a risk-off tone on Friday, with equity markets lower again, the USD stronger, and the NZD back down to 0.7040. The US 10-year rate continued to edge higher, trading near a two-month high on Friday, as the market looked ahead to the Fed meeting this week. The key local event this week is RBNZ Assistant Governor Hawkesby's speech tomorrow morning which, with market pricing finely balanced between a 25bps hike and a 50bps move next month, could be market moving.

Markets continue to trade cautiously amidst a long list of potential concerns. These include pre-existing worries around the global growth outlook, given the spread of the Delta variant, the surge in energy prices in Europe, which could impede its economic recovery, and concerns around possible spill over effects were distressed Chinese property developer Evergrande to default.

US and European equity markets were broadly lower on Friday, with the S&P500, NASDAQ and EuroStoxx 600 indices all down by around 0.9%. The S&P500 has fallen in eight of the past 10 trading sessions and is now down almost 2% on the month (albeit after what had been a more than 20% rally from the end of last year).

Markets may also be on edge ahead of the Fed's policy meeting this week, given the support that low rates have provided to risk assets such as equities over the past 18 months. The key focus at the FOMC meeting will be the 'dot plot', which in June showed the median committee member expected the first rate hike to take place in 2023, albeit with a sizeable minority (7 of 18) in favour of a 2022 rate move. The market fully prices the first Fed hike by March 2023. According to a Bloomberg survey of economists, the consensus view is the Fed will discuss tapering its bond buying but refrain from making a formal announcement at this meeting, instead waiting for the November meeting.

The US 10-year rate traded up to 1.38% on Friday, its highest level in two months, before closing back at 1.36% (+2bps on the day). The German 10-year bund yield was also 2bps higher on Friday, closing at a two-month high of -0.28%. European 10-year inflation expectations (derived from inflation swaps) hit their highest levels in almost eight years last week, at 1.84%, amidst supply-related price pressures and the surge in gas prices.

In economic data, the University of Michigan consumer confidence index rebounded slightly in August after its big fall the previous month. The fundamentals for the US consumer still look strong given high savings accumulated over the past 12 months and record job openings.

Commodity prices were generally lower on Friday. The Bloomberg Commodity index, which hit a six-year high mid-week, was down 1%. Of note, iron ore futures traded below \$100/tonne on Friday for the first time since July last year. Iron ore prices were down more than 20% last week amidst concerns around Chinese steel production curbs, as the authorities try to reduce pollution ahead of the Winter Olympics, and rising inventories. Markets are also worried about slowing demand for steel from the construction sector, with the risk that the financial troubles at Evergrande could affect access to credit for other developers. Iron ore prices are down more than 50% over the past two months even as the Bloomberg Commodity index has pushed higher.

The USD was stronger on Friday, by around 0.3% in index terms, against a backdrop of more cautious risk appetite. Commodity and risk-sensitive currencies were among the underperformers, including the NZD (-0.5%), CAD (-0.6%) and NOK (-0.9%). The NZD ended last week at around 0.7040, back within its previous 0.69 – 0.71 trading range. The NZD/AUD cross closed the week just below the 0.97 mark, at around 0.9680.

In what is shaping up to be the key focus for the domestic market this week, RBNZ Assistant Governor Christian Hawkesby will release a speech at 9am tomorrow on the RBNZ's "least regrets" approach to policy and how it shaped the August MPS decision. As we all know, the RBNZ kept the OCR on hold in August due to the nationwide lockdown announcement the previous evening. However, we also know the Monetary Policy Committee discussed a 50bps increase (presumably before the lockdown announcement) alongside a 25bp hike. In explaining the thought process behind the August decision,

the speech might provide the market with a sense as to whether the RBNZ might lean towards a 25bp OCR hike in October or a 50bp move. The market is finely balanced, with a 40% chance of a 50bp increase priced in for October, so there could be a meaningful market reaction if Hawkesby suggests the RBNZ is leaning one way.

NZ rates were higher on Friday, by 1-2bps on the swap curve and by 2-4bps in government bonds, reflecting global moves the previous night. The 2-year swap rate hit 1.50%, with swap rates across the curve closing at their highest levels since mid-2019.

The government makes its Covid alert level announcement this afternoon amidst news of three positive cases south of Auckland, in the Waikato. Last week, Cabinet agreed, in principle, that Auckland would come down to Alert Level 3 from Wednesday.

Today should be quiet, with just the New Zealand PSI and the US NAHB housing market index released. Friday saw the New Zealand PMI plummet to 40.1 in August, down from 62.7 in July, with the one bright spot in the survey being the employment indicator which, at 54.5, was still

above its long-run average. Firms appear to be reluctant to let staff go under the current lockdown given the extremely tight labour market.

The FOMC meeting on Wednesday night is the main event offshore this week, with the market focussed on the latest 'dot plot' (which will include projections, for the first time, for 2024). The Bank of England meets on Thursday night amidst recent hawkish noises from some of the MPC members, although it is expected to leave all its policy settings unchanged at this meeting. The market prices two hikes from the Bank of England next year. In Europe, the 'flash' PMIs on Thursday night are expected to remain at very strong levels.

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### Coming Up

		Period	Cons.	Prev.	NZT
NZ	Performance Services Index	Aug		57.9	10:30
US	NAHB Housing Market Index	Sep	74	75	02:00

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		Last	Net Day	
NZD	0.7040	-0.5	0.7026	0.7087	CHF	0.9323	+0.5		S&P 500	4,433	-0.9	32.1	Oil (Brent)	75.31	-0.5
AUD	0.7279	-0.2	0.7262	0.7322	SEK	8.683	+0.7		Dow	34,585	-0.5	24.0	Oil (WTI)	71.92	-0.9
EUR	1.1725	-0.4	1.1725	1.1789	NOK	8.711	+0.9		Nasdaq	15,044	-0.9	37.9	Gold	1751.5	-0.1
GBP	1.3741	-0.4	1.3728	1.3813	HKD	7.783	-0.0		Stoxx 50	4,131	-0.9	24.6	HRC steel	1934.0	+0.6
JPY	109.93	+0.2	109.82	110.08	CNY	6.466	+0.1		FTSE	6,964	-0.9	15.1	CRB	222.1	-0.8
CAD	1.2764	+0.6			SGD	1.349	+0.3		DAX	15,490	-1.0	17.3	Wheat Chic.	717.8	-0.9
NZD/AUD	0.9672	-0.2			IDR	14,223	-0.2		CAC 40	6,570	+0.4	30.4	Sugar	19.18	-1.8
NZD/EUR	0.6004	-0.1			THB	33.29	+0.5		Nikkei	30,500	+0.6	30.6	Cotton	93.32	-0.1
NZD/GBP	0.5123	-0.1			KRW	1,175	+0.3		Shanghai	3,614	+0.2	8.3	Coffee	186.4	-0.9
NZD/JPY	77.39	-0.4			TWD	27.72	+0.0		ASX 200	7,404	-0.8	26.2	WM powder	3725.0	+0.7
NZD/CAD	0.8986	+0.1			PHP	49.96	-0.0		NZX 50	13,235	+1.2	13.8	<b>Australian Futures</b>		
NZ TWI	75.05	-0.3											3 year bond	99.615	-0.01
													10 year bond	98.65	-0.02

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				
USD	0.25	0.12	0.33	1.40	USD	1.36	0.02	NZGB 5 1/2 04/15/23	1.11	0.00	1 year	1.19	0.02
AUD	0.10	0.01	0.22	1.48	AUD	1.30	0.04	NZGB 0 1/2 05/15/26	1.56	0.03	2 year	1.50	0.02
NZD	0.25	0.68	1.50	2.12	NZD	1.87	0.04	NZGB 0 1/4 05/15/28	1.73	0.03	5 year	1.82	0.01
EUR	0.00	0.06	-0.45	0.09	GER	-0.28	0.02	NZGB 1 1/2 05/15/31	1.87	0.04	7 year	1.95	0.01
GBP	0.10	0.07	0.57	1.04	GBP	0.85	0.03	NZGB 2 05/15/32	1.93	0.04	10 year	2.12	0.02
JPY	-0.04	-0.09	0.00	0.10	JPY	0.05	0.00	NZGB 1 3/4 05/15/41	2.51	0.03	15 year	2.32	0.02
CAD	0.25	0.45	0.85	1.77	CAD	1.28	0.05	NZGB 2 3/4 05/15/51	2.74	0.04			

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

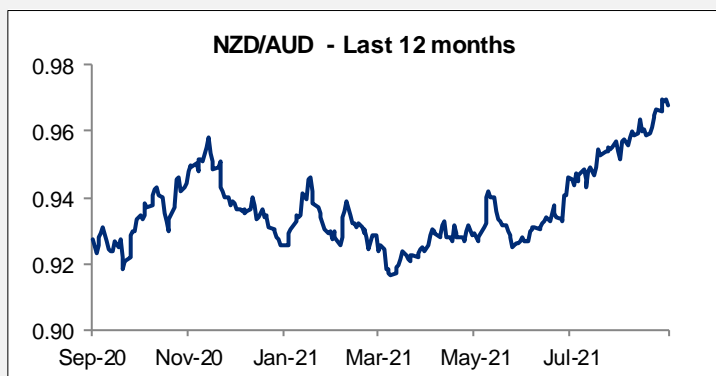
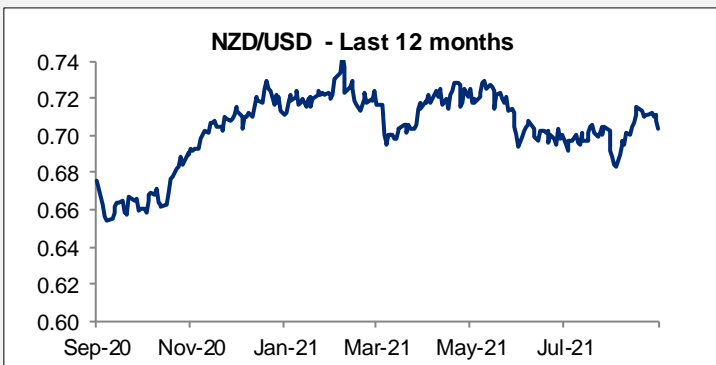
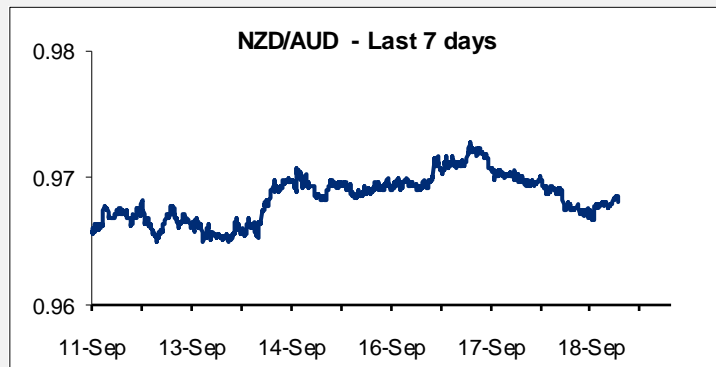
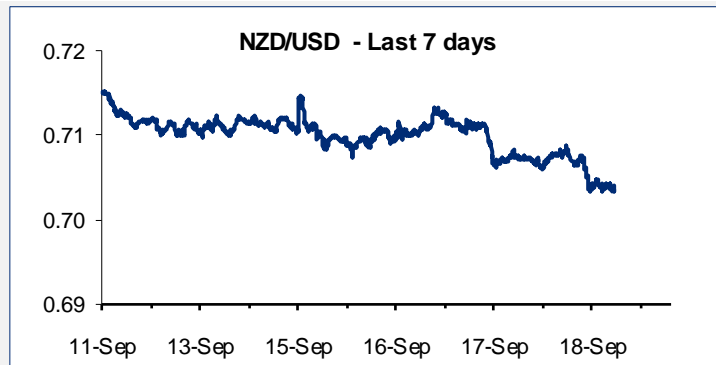
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: New York close

Source: Bloomberg

**NZD exchange rates**

18/09/2021	NY close	Prev. NY close
USD	0.7040	0.7075
GBP	0.5123	0.5129
AUD	0.9672	0.9702
EUR	0.6004	0.6013
JPY	77.39	77.63
CAD	0.8986	0.8973
CHF	0.6563	0.6563
DKK	4.4644	4.4710
FJD	1.4688	1.4789
HKD	5.4791	5.5064
INR	51.73	52.01
NOK	6.1322	6.1049
PKR	118.36	118.99
PHP	35.17	35.35
PGK	2.4710	2.4609
SEK	6.1129	6.0999
SGD	0.9493	0.9515
CNY	4.5521	4.5688
THB	23.39	23.37
TOP	1.5802	1.5677
VUV	78.12	78.23
WST	1.8110	1.8158
XPF	71.27	71.51
ZAR	10.3615	10.3279



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.56	-0.23
3 Months	-6.26	-5.81
6 Months	-19.52	-18.52
9 Months	-39.70	-37.80
1 Year	-63.15	-61.15

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.22	-1.55
3 Months	-12.50	-11.46
6 Months	-35.68	-33.44
9 Months	-65.28	-60.99
1 Year	-99.05	-93.85

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