

21 January 2022



Events Round-Up

NZ: Food prices (y/y%), Dec: 4.5 vs. 4.0 prev.
 AU: Employment Change (k), Dec: 64.8 vs. 60.0 exp.
 AU: Unemployment Rate (%), Dec: 4.2 vs. 4.5 exp.
 CH: 1-yr loan prime rate (%), Jan: 3.7 vs 3.8 prev.
 CH: 5-yr loan prime rate (%), Jan: 4.60 vs 4.65 prev.
 US: Initial Jobless Claims (k), wk to 15-Jan: 286 vs. 225 exp.
 US: Philly Fed business outlook, Jan: 23.2 vs. 19.0 exp.
 US: Existing home sales (m), Dec: 6.18 vs. 6.42 exp.

Good Morning

Global equity markets have recovered some losses after the recent sell-off, supported by some pullback in global rates. US equity indices show broadly based gains of more than 1%, while US 2 and 10 year rates show mild falls. The NZD has recovered overnight to be flat for the day just below 0.68, while the AUD has solidified the gain seen during local trading hours.

Risk appetite has improved overnight for no obvious reason, but some exhaustion in the recent selling pressure in the rates market is evident. Across Europe and the US, 10-year rates are universally lower, down modestly in the order of 1-3bps. The US 2-year rate is currently down 1bp to 1.04% while the 10-year rate has traded a 1.82-1.86% range and is currently down 3bps for the day to 1.83% and 2bp lower from the NZ close.

The consolidation in the rates market has brought out equity buyers, with the S&P500 showing its biggest gain for the year so far, currently up around 1% with all sectors contributing, with the Nasdaq index up 1½%. Market legend Jeremy Grantham has reiterated his view that we're in a "super bubble", predicting an eventual plunge of nearly 50% in US equities, but investors aren't in a mood to listen today.

US economic releases were mixed. US initial jobless claims rose by much higher than expected to 286k, but not too much is being read into the result, as it likely reflects errant seasonal factors at this time of year and the impact of Omicron. The non-seasonally adjusted figure fell from 420k to 337k. The Philly Fed index positively surprised at 23.2, some relief after the plunge in the Empire state figure released earlier this week. After a strong run,

existing home sales fell by more than expected, down 4.6% in December.

Yesterday, the PBoC enacted another incremental easing of monetary policy, with a 10bps reduction in the 1-year loan prime rate and a 5bps reduction in the 5-year rate. The government is keen to do something to support the economic growth outlook, but is seemingly moving in small steps at this stage.

Overnight, ECB President Lagarde tried to differentiate the euro area with the US, saying that the US recovery is ahead and "so we have every reason not to act as quickly or as ruthlessly as one might imagine with the Fed". She suggested that inflation in the euro area was "clearly weaker" compared to the US and inflation would stabilise and gradually fall back below its target by the end of this year, falling further in 2023 and 2024.

In currency markets, the recovery in risk appetite sees the NZD and AUD the best performers overnight, up about 0.3%. Other currency movements have been more modest, with EUR on the soft side, down slightly to 1.1330, while GBP and JPY have made small gains.

The lift in the AUD built on the rally seen during local trading hours after another strong labour market report and a couple of analysts bringing forward their RBA rate hike calls to August this year. For the umpteenth time, the strength of the Australian labour market surprised to the upside, with the unemployment rate falling by much more than expected to a 13-year low of 4.2%, and now about a percentage point below pre-COVID levels. The data continues to raise questions about the RBA's hither-to plan to keep the cash rate low for an extended period. Another strong CPI print next week, should cement an end to QE at the February policy update and surely a more hawkish pivot from the Bank.

The NZD's overnight recovery simply reverses the loss seen during local trading hours, taking it back near the 0.68 mark. The relative strength of the AUD saw the NZD/AUD cross fall to a fresh six-month low of 0.9343. We remain bearish on the cross and continue to target lower levels this year, with NZ's economy set to underperform Australia in the year ahead.

NZ annual food price inflation rose to 4.5% y/y in December, its highest rate in a decade, setting the scene for another bumper CPI print next week. We're picking

1.3% q/q and 5.8% y/y for the Q4 result, with a good chance of inflation hitting the 6% mark in Q1, with ever-rising petrol prices adding to inflationary pressure.

PM Ardern announced that all of NZ would move into red in the traffic light system in the event of a community outbreak of Omicron and lockdowns will not be used. This would see a limit of 100 people and social distancing in a variety of gatherings/activities which operate under the vaccine pass system. This announcement will be of some relief to many, given concerns that the government might have applied much greater restrictions. This should limit the economic damage from the expected Omicron outbreak, and there are tentative signs that it is already in the community, with three confirmed cases in Auckland and a suspected case in Palmerston North.

NZ swap rates saw further upside pressure yesterday, with the 2-year rate reaching 2.45% in the generally one-sided market, not helped by the economic newsflow out of Australia, before receivers came in, with the end result being a 1bp fall for the day to 2.41%. The 5-year rate showed a similar move, while the 10-year rate fell 3bps to 2.84%. The NZGB bond tender showed solid demand, after

the market sell-off earlier in the day, and long-term rates ended the day down 2-4bps.

In the day ahead, on the calendar is NZ's manufacturing PMI while global releases are second tier, including Japanese inflation, and UK and Canadian retail sales data. With the Wellington anniversary holiday on Monday, our next Markets Today report will be on Tuesday.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	BNZ manufacturing PMI	Dec		50.6	10:30
JN	CPI ex fresh food, energy (y/y%)	Dec	-0.6	-0.6	12:30
UK	GfK consumer confidence	Jan	-15	-15	13:01
UK	Retail sales ex auto fuel (m/m%)	Dec	-0.8	1.1	20:00
CA	Retail sales ex auto (m/m%)	Nov	1.2	1.3	02:30
EC	Consumer confidence	Jan	-9.0	-8.3	04:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6786	+0.0	0.6760	0.6806	CHF	0.9167	+0.1	S&P 500	4,590	+1.3	19.2	Oil (Brent)	88.81	+0.4
AUD	0.7259	+0.7	0.7224	0.7277	SEK	9.146	+0.4	Dow	35,339	+0.9	13.3	Oil (WTI)	87.25	+0.3
EUR	1.1327	-0.1	1.1327	1.1369	NOK	8.768	-0.2	Nasdaq	14,549	+1.4	8.1	Gold	1843.5	+0.0
GBP	1.3626	+0.1	1.3600	1.3662	HKD	7.787	-0.1	Stoxx 50	4,300	+0.7	18.6	HRC steel	1438.0	+0.7
JPY	114.12	-0.2	113.96	114.52	CNY	6.341	-0.1	FTSE	7,585	-0.1	12.5	CRB	249.9	+1.2
CAD	1.2463	-0.4			SGD	1.345	-0.2	DAX	15,912	+0.6	14.3	Wheat Chic.	792.3	-0.8
NZD/AUD	0.9348	-0.6			IDR	14,341	-0.2	CAC 40	7,194	+0.4	27.8	Sugar	18.91	-0.9
NZD/EUR	0.5991	+0.2			THB	32.83	-0.3	Nikkei	27,773	+1.1	-3.4	Cotton	122.52	-1.2
NZD/GBP	0.4980	-0.1			KRW	1,192	+0.1	Shanghai	3,555	-0.1	-1.8	Coffee	243.4	-0.4
NZD/JPY	77.44	-0.2			TWD	27.63	+0.0	ASX 200	7,342	+0.1	7.6	WM powder	4400	+0.0
NZD/CAD	0.8457	-0.4			PHP	51.35	-0.3	NZX 50	12,497	-0.9	-4.7	Australian Futures		
NZ TWI	72.51	-0.1										3 year bond	98.575	-0.03
												10 year bond	98.01	0.01
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	0.25	0.26	1.22	1.89	USD	1.83	-0.03	NZGB 5 1/2 04/15/23	1.64	0.00	1 year	1.88	-0.01	
AUD	0.10	0.07	1.16	2.20	AUD	1.99	-0.01	NZGB 0 1/2 05/15/26	2.42	-0.01	2 year	2.41	-0.01	
NZD	0.75	1.08	2.40	2.83	NZD	2.59	-0.02	NZGB 0 1/4 05/15/28	2.50	-0.01	5 year	2.78	-0.01	
EUR	0.00	0.06	-0.23	0.40	GER	-0.02	-0.01	NZGB 1 1/2 05/15/31	2.56	-0.02	7 year	2.81	-0.02	
GBP	0.25	0.56	1.17	1.15	GBP	1.23	-0.03	NZGB 2 05/15/32	2.59	-0.02	10 year	2.84	-0.03	
JPY	-0.04	-0.02	0.05	0.21	JPY	0.15	0.00	NZGB 1 3/4 05/15/41	2.91	-0.04	15 year	2.88	-0.03	
CAD	0.25	0.71	1.82	2.32	CAD	1.86	-0.02	NZGB 2 3/4 05/15/51	2.97	-0.03				

* 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 07:00

Source: Bloomberg

NZD exchange rates

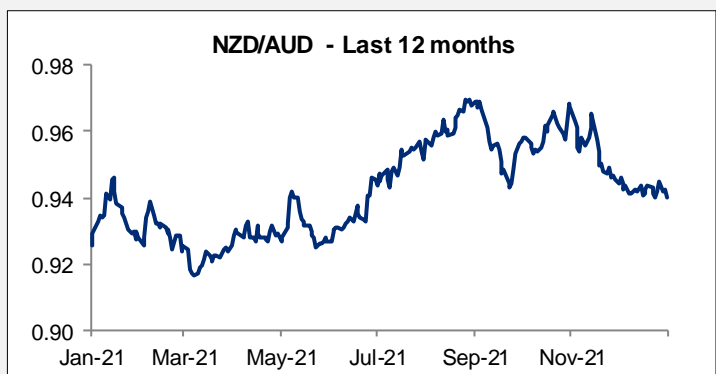
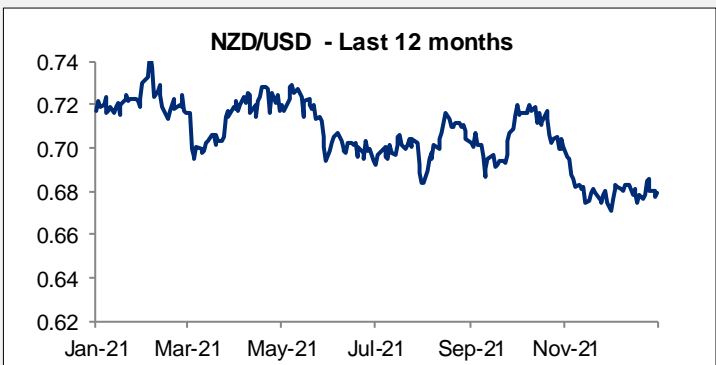
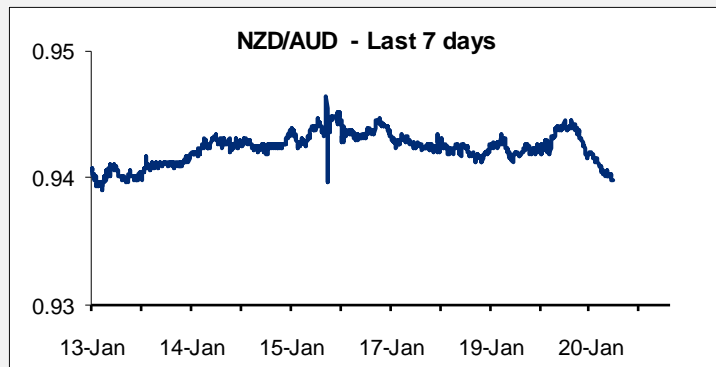
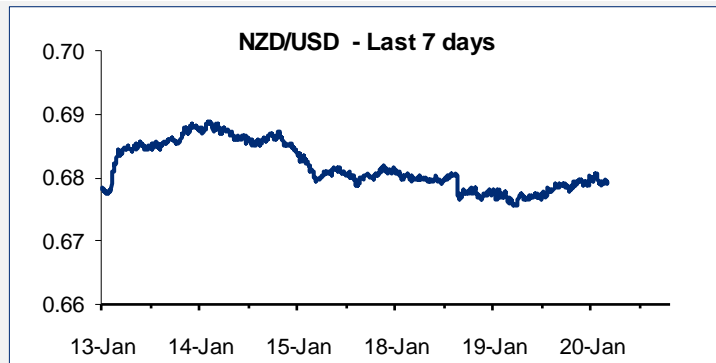
20/01/2022	6:54 a.m.	Prev. NY close
USD	0.6793	0.677
GBP	0.4986	0.4979
AUD	0.9399	0.9422
EUR	0.5989	0.5978
JPY	77.64	77.59
CAD	0.8484	0.8472
CHF	0.6220	0.6211
DKK	4.4572	4.4486
FJD	1.4404	1.4392
HKD	5.2924	5.2754
INR	50.56	50.49
NOK	5.9520	5.9634
PKR	119.68	119.43
PHP	34.98	34.85
PGK	2.3835	2.3754
SEK	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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