

22 November 2021



Events Round-Up

JN: CPI ex fresh food, energy (y/y%), Oct: -0.7 vs. -0.7 exp.

UK: Retail sales ex auto fuel (m/m%), Oct: 1.6 vs. 0.6 exp.

Good Morning

News that Austria will go into lockdown, as it battles surging Covid cases, hit risk sentiment on Friday, triggering falls in long-end global rates and the euro. Meanwhile, hawkish commentary from Fed officials, raising the possibility of a faster tapering timeline, boosted Fed rate hike expectations and the USD. The NZD fell to around 0.70 amidst a stronger USD backdrop. The main event this week is the RBNZ MPS, with the market evenly balanced between a 25bps hike and a 50bps move. The NZ 2-year swap rate continues to make new highs with liquidity still strained.

On Friday night, Austria announced the country would go into a 20-day nationwide lockdown, with people asked to work from home and non-essential shops to close. Just last weekend, the Austrian government had announced plans for a lockdown just for the unvaccinated, but it has changed course in a bid to get control of surging case numbers. The government also outlined its intention to make vaccination compulsory by February 1st, which would make it the first major developed country to do so.

In Germany, which is battling a 'fourth wave' of its own, the government has recently imposed strict restrictions on unvaccinated individuals in states where the health system is under pressure, which is most of the country. However, the German Foreign Minister appeared to rule out a nationwide lockdown on Friday. Slovakia and the Czech Republic have imposed restrictions on people who are unvaccinated while in Belgium, employees will be made to work from home for four days a week until mid-December.

The news that Austria would go into lockdown triggered an immediate risk-off move. Long-term government bond yields fell sharply, with the German 10-year rate down 7bps on the session to a two-month low of -0.34%, with the market pushing back the expected timing of ECB rate hikes into 2023. Crude oil plummeted 3%, as markets contemplated the possibility of similar measures in other countries, which would dent travel and oil demand.

In the US, Fed Vice Chair Clarida and Board Governor Waller both raised the possibility of a faster tapering schedule on Friday. Clarida reiterated that there were upside risks to inflation and said it "may well be appropriate at that [December] meeting to have a discussion about increasing the pace at which we're reducing our balance sheet." Waller highlighted the "rapid improvement" in the labour market and high inflation as reasons for a faster tapering, which would give the Fed flexibility to raise rates earlier "if necessary". Both Clarida and Waller are on the Board of Governors and are seen to be aligned to the centre of the committee. The broad consensus is that the Fed wouldn't raise rates while it was still buying bonds under QE, so a faster tapering would be important because it would open the door to an earlier rate rise. At the Fed's current \$15b per month tapering pace, its bond buying would stop by June next year.

US short-term rates shot higher after the comments from Clarida and Waller, with the 2-year rate reversing an earlier 6bps fall to finish 1bp higher on the day, at 0.51%, near its highest level in 18 months. The market is back to pricing the first Fed rate hike by July next year, just after its current tapering plan is scheduled to end, with around 65bps priced in by the end of 2022. The US 10-year rate recovered somewhat after the Fed comments but still ended up 4bps lower on the day, at 1.55%. The US 10-year rate remains firmly rangebound for now, despite extremely high inflation and more hawkish rhetoric from Fed officials, with the market seemingly pricing a very pessimistic longer-term outlook for economic growth.

Tech stocks outperformed on Friday amidst the falls in long-term rates and a rotation back into stay-at-home stocks. The NASDAQ was up 0.4%, to a fresh record high, while the large weightings of mega-cap tech stocks, such as Apple, limited the S&P500 to a small loss of just 0.1%. Bank and energy stocks, which have benefited from the reopening of major economies this year, were among the sectors to be particularly hard hit on Friday.

The news of lockdown in Austria and, to a lesser extent, hawkish talk from the Fed, saw the EUR fall sharply on Friday, hitting its lowest level in more than a year. It closed around 0.8% lower, at 1.1280. Conversely, the USD remains firmly on the front foot, with both the BBDXY and DXY indexes closing at 12-month highs. The NZD fell to around 0.70 amidst a stronger USD, near its recent one-month lows.

In other news, US Congress passes Biden’s \$1.75tn ‘Build Back Better’ social spending bill, which includes funding for, amongst other things, universal preschool and climate change. The bill now heads to the Senate where it is likely to encounter resistance from moderate Democrats, such as West Virginia’s Joe Manchin, and amendments are likely. Top Democrat Senator Schumer said he wants to pass the bill before Christmas, although it remains uncertain whether it will be able to satisfy both the progressive and moderate elements of the party. There is no margin for error with the Democrats holding a wafer-thin majority in the Senate and the Republican party lined up against the bill.

The RBNZ MPS is the big event for the domestic market this week. With the market evenly balanced between a 25bps hike and a 50bps move (the probability of a 50bps hike is around 45%), there could be a sizeable reaction either way on the day. The message from the statement is likely to be that the OCR will probably need to be raised above neutral over the next few years.

Swap rates reached new cycle highs on Friday, with the 2-year rate up 3bps, to 2.45%, and the yield curve steepening for a change, the 10-year rate up 8bps, to 2.85%. NZ rates were again meaningfully higher last week (by between 14-15bps) despite flat-to-lower global rates.

At the short end of the swaps curve, the broader themes remain the same, namely nervousness ahead of the MPS this week and ongoing mortgage-related paying, which is adding upward pressure to rates in often thin conditions. Compounding matters, it is possible some offshore investors are reluctant to step in and take the other side of the

mortgage book flow with some nursing big losses after the big global rates sell-off in October. Broader uncertainty about the RBNZ’s policy intentions may also be limiting investor interest at the short end of the curve ahead of the MPS. Liquidity remains patchy, although it was better on Friday. But a 50bps hike, in close proximity to year end, would exacerbate matters.

Despite having only raised the OCR by 25bps to date, the RBNZ has certainly been getting traction through the mortgage curve. Since the RBNZ’s last meeting in October, the 2-year swap rate is up 1.04% and this has been almost fully passed through to borrowers, with the 2-year fixed mortgage rate up 1% over this time.

In the week ahead, we’re expecting to hear from Biden on his pick for the next Fed Chair, with betting markets and economists both favouring Powell over Brainard. In economic data, the European flash PMIs are expected to slip further in November, albeit to still healthy levels, while the US core PCE deflator, the Fed’s preferred inflation measure, is expected to hit its highest level since the early 1990s, at 4.1% y/y.

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Coming Up

		Period	Cons.	Prev.	NZT
US	Existing Home Sales (m)	Oct	6.2	6.29	04:00
EC	Consumer Confidence	Nov	-5.2	-4.8	04:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High	Last	% Day	Last	% Day	% Year	Last	Net Day			
NZD	0.7004	-0.6	0.6991	0.7045	CHF	0.9278	+0.2	S&P 500	4,698	-0.1	32.1	Oil (Brent)	78.89	-2.9
AUD	0.7235	-0.6	0.7227	0.7291	SEK	8.950	+1.0	Dow	35,602	-0.7	21.7	Oil (WTI)	75.94	-3.2
EUR	1.1290	-0.7	1.1250	1.1361	NOK	8.918	+1.2	Nasdaq	16,057	+0.4	35.4	Gold	1851.6	-0.5
GBP	1.3451	-0.3	1.3408	1.3510	HKD	7.791	+0.0	Stoxx 50	4,356	-0.6	25.6	HRC steel	1800.0	+0.1
JPY	113.99	-0.2	113.59	114.54	CNY	6.387	+0.0	FTSE	7,224	-0.4	13.7	CRB	235.0	-0.6
CAD	1.2640	+0.3			SGD	1.361	+0.4	DAX	16,160	-0.4	23.0	Wheat Chic.	834.3	+0.4
NZD/AUD	0.9681	-0.1			IDR	14,232	+0.1	CAC 40	7,112	-0.6	29.4	Sugar	19.99	-0.9
NZD/EUR	0.6204	+0.2			THB	32.80	+0.6	Nikkei	29,746	+0.5	16.5	Cotton	119.22	+1.4
NZD/GBP	0.5207	-0.2			KRW	1,185	+0.4	Shanghai	3,560	+1.1	5.4	Coffee	233.4	+1.9
NZD/JPY	79.84	-0.8			TWD	27.79	-0.0	ASX 200	7,397	+0.2	13.1	WM powder	4195.0	+0.7
NZD/CAD	0.8853	-0.3			PHP	50.42	+0.4	NZX 50	12,740	-0.5	2.4	Australian Futures		
NZ TWI	75.04	-0.3										3 year bond	98.865	0.00
												10 year bond	98.21	0.03

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

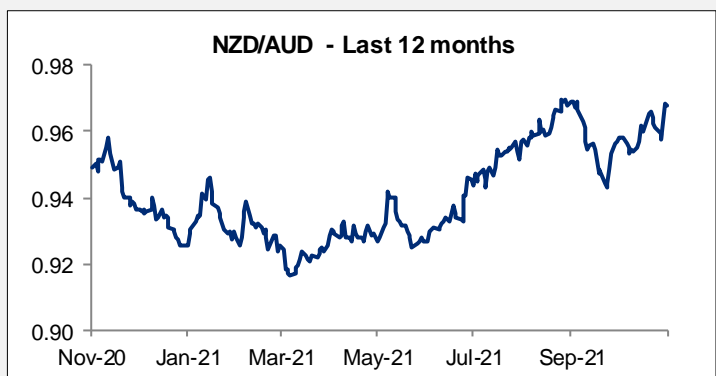
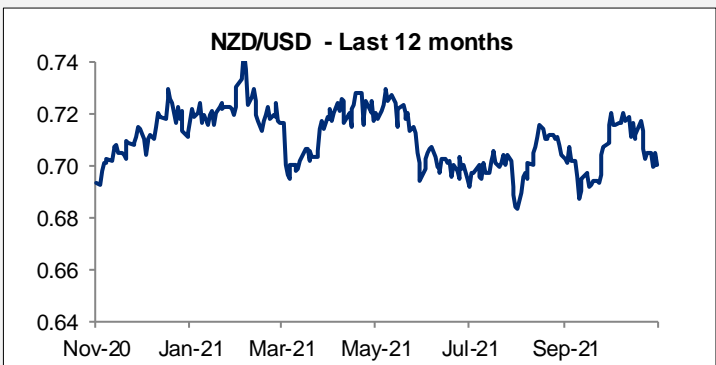
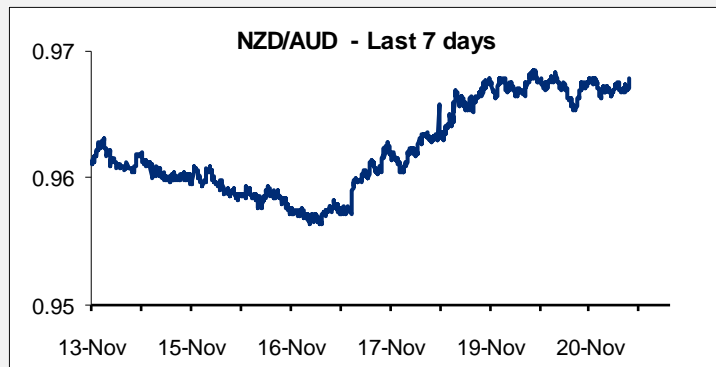
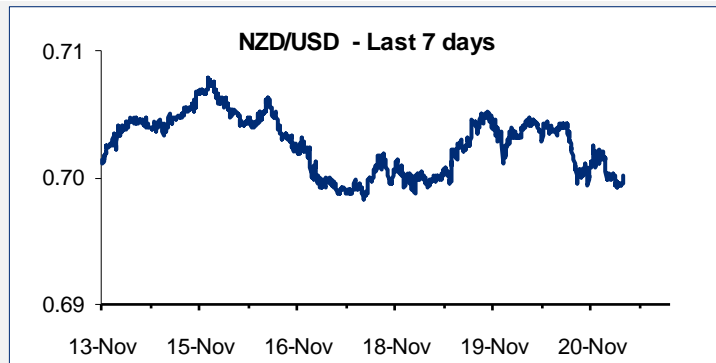
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: New York close

Source: Bloomberg

NZD exchange rates

20/11/2021	NY close	Prev. NY close
USD	0.7004	0.7044
GBP	0.5207	0.5220
AUD	0.9681	0.9680
EUR	0.6204	0.6195
JPY	79.84	80.48
CAD	0.8853	0.8877
CHF	0.6498	0.6522
DKK	4.6140	4.6064
FJD	1.4680	1.4795
HKD	5.4566	5.4866
INR	52.00	52.32
NOK	6.2463	6.2088
PKR	121.91	123.36
PHP	35.32	35.39
PGK	2.4679	2.4716
SEK	6.2685	6.2449
SGD	0.9535	0.9554
CNY	4.4735	4.4984
THB	22.94	22.95
TOP	1.5571	1.5720
VUV	78.07	78.70
WST	1.7908	1.8010
XPF	73.59	73.62
ZAR	11.0151	11.0207



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.99	-3.58
3 Months	-12.28	-11.77
6 Months	-33.25	-32.25
9 Months	-63.06	-60.62
1 Year	-95.91	-93.91

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.68	-5.72
3 Months	-22.27	-20.91
6 Months	-52.18	-49.67
9 Months	-91.27	-86.02
1 Year	-131.01	-125.44

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