

22 September 2021



Events Round-Up

NZ: Westpac consumer confid., Q3: 102.7 vs. 107.1 exp.

US: Building permits (k), Aug: 1728 vs. 1600 exp.

US: Housing starts (k), Aug: 1615 vs. 1550 exp.

NZ: GDT dairy auction price index: +1.0%

Good Morning

After yesterday's slump in risk appetite, markets have settled, even if we are still in the dark about the next move on Chinese property developer Evergrande. US equities are flat, global rates have traded sideways and commodity currencies have modestly underperformed, with the NZD finding some support near 0.70.

Markets have settled after the chunky fall in equity markets yesterday, as fears of contagion from the imminent collapse of large Chinese property developer Evergrande gripped the market, alongside the usual list of other fear factors. After we went to print yesterday, there were signs of buyers of the dip in US equities, with a strong rebound into the close and overnight the market opened on a positive note, following a 1% rally in the futures market during the Asian trading session. Enthusiasm to continue that rally has dampened and the S&P500 is now currently flat. Hong Kong's Hang Seng index rose by 0.5% yesterday, while European and UK equities rose by about 1%.

There has been no key news on Evergrande and the market will be watching out for any signal from the Chinese government about its possible involvement in any debt restructuring. After the holiday break the PBoC will resume its daily open-market operations today and there will be some interest in the size of any net liquidity injection. Tomorrow, there will be interest in whether Evergrande honours a large coupon payment due to bond holders.

The OECD released its latest forecasts overnight. Global growth forecasts remained strong and little changed, at 5.7% this year and 4.5% next year. But there were widespread upward revisions to inflation projections, with core CPI inflation for the G20 raised by 0.3% for both forecast years to 2.1% and 2.2% respectively, and with headline rates up to 3.7% and 3.9% respectively, the latter revised up 0.5%. The OECD warned that clear guidance from central banks is needed "about the horizon and extent to which any inflation overshooting will be

tolerated", arguably a shot at the US Fed which has been purposely vague about policy under its average inflation targeting framework.

The economic data calendar has been light this week. US housing starts and permits were much stronger than expected, but driven by the volatile multi-family units, with single-family units only showing small changes.

Ahead of the FOMC policy update in less than 24 hours, bond markets have largely tracked sideways, with the US 10-year rate up 1bp to 1.32% and there was little net movement across European 10-year rates.

Currency markets show a mild risk-off tone, with commodity currencies underperforming overnight. However, this follows some recovery during the local trading session, so the net change from this time yesterday is small. The USD is little changed for the day, reflecting little net movement for EUR and GBP, while JPY has been well supported, seeing USD/JPY down to 109.20.

After rising up through 0.7280 into the early evening, the AUD has fallen back down to 0.7235. In Canada, PM Trudeau was re-elected as PM but will still only head a minority government. In calling the snap election, he was looking for a gain in support to achieve a majority, but that didn't occur. Although weaker overnight, CAD shows little net change for the day, with USD/CAD near 1.28.

The NZD has been on the soft side. There was a notable market reaction to the release of RBNZ Assistant Governor Hawkesby's speech notes. Hawkesby explained the Bank's "least regrets" approach to uncertainty and the market's takeaway was that the hurdle for a 50bps move next month to kick off the tightening cycle was much higher. Hawkesby noted that when there is a typical amount of uncertainty, "central banks globally tend to follow a smoothed path and keep their policy rate unchanged or move in 25 basis point increments".

OIS pricing for the October meeting fell by over 7bps to just under 0.50%, more or less fully pricing a 25bps hike and no chance of a 50bps move. This flowed through the rest of the curve, seeing the 2-year swap rate down 6bps to 1.43%, and a flatter curve, with the 10-year swap rate down only 2bps to 2.11%. Longer term rates were more affected by global forces. NZGB yields were lower across the curve, with 5 and 10-year rates down 3bps.

Post the speech notes, the NZD fell away but found some support near 0.70 before positive global forces took over, sending it to about 0.7055 overnight and those same forces sending it lower again. There was a brief dip below 0.70 and it has since settled just over that mark.

In the overnight GDT dairy auction, the price index rose by 1.0%, following the strong 4% lift in the previous auction. Whole milk powder rose 2.2% and skim milk powder rose 0.9%. Butter and cheese prices were down 1.9% and 1.2% respectively. Fonterra’s financial results are due tomorrow and we expect the milk price guidance for the 2021/22 season to stay in touch with the current \$7.25 to \$8.75 forecast range. Market futures and our own projections are consistent with some upside bias to the mid-point of that, but it is still very early in the season.

In the day ahead, the Bank of Japan policy update should pass without much interest as the Bank likely leaves policy settings unchanged. There is more interest in the US FOMC policy announcement and updated forecasts at 6am NZ time, followed by Chair Powell’s press conference. While the FOMC will discuss the timing of tapering asset purchases, we don’t think it will come to a decision at this meeting. The decision will likely be left to the November or December meeting, after more data on the employment situation comes to hand.

The Fed’s updated projections could easily cause some market reaction, in particular the dotplot outlining each member’s expectations for the policy rate. Recall that at the last forecast update in June, the bringing forward of

expected rate hikes for the median member into 2023 had a significant impact on the USD. Sustained strength has been evident since, a key factor for the NZD languishing at its current level, and spending some time sub-0.70 over the past few months, despite a nearly 100bps increase in NZ’s 2-year swap rate over that time.

If it is evident that a number of FOMC members are bringing forward their expectation of timing for the first rate hike – and recall that 7 out of 18 members thought a rate hike in 2022 was appropriate – then the USD could be expected to be well supported. It would only take 3 members to move their “dot” from 2023 to 2022 to bring forward the median expectation of a rate hike into next year. Not quite as important, but the market will also be sensitive to the first publication of the 2024 dot, as a signal for how aggressive the Fed might be when the tightening cycle gets underway.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	BoJ 10-yr yield target	Sep	0.0	0.0	
EC	Consumer confidence	Sep	-5.9	-5.3	02:00
US	Existing home sales (m)	Aug	5.88	5.99	02:00
US	Fed Funds rate (upper bd%)	Sep	0.25	0.25	06:00
US	Powell press conference post-FOMC meeting				06:30

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	0.7007	-0.3	0.6994	0.7055	CHF	0.9236	-0.4	S&P 500	4,362	+0.1	32.9	Oil (Brent)	74.47	+0.7
AUD	0.7235	-0.2	0.7222	0.7283	SEK	8.685	+0.1	Dow	34,004	+0.1	25.3	Oil (WTI)	70.56	+0.3
EUR	1.1726	+0.0	1.1715	1.1749	NOK	8.677	-0.6	Nasdaq	14,797	+0.6	37.3	Gold	1774.1	+0.7
GBP	1.3661	+0.0	1.3641	1.3693	HKD	7.787	+0.0	Stoxx 50	4,098	+1.3	29.6	HRC steel	1935.0	-0.1
JPY	109.22	-0.2	109.19	109.71	CNY	6.466	+0.1	FTSE	6,981	+1.1	20.3	CRB	218.1	-1.8
CAD	1.2812	-0.1			SGD	1.352	+0.0	DAX	15,349	+1.4	22.4	Wheat Chic.	700.5	-1.5
NZD/AUD	0.9685	-0.1			IDR	14,238	-0.0	CAC 40	6,553	+0.5	36.7	Sugar	18.97	+0.6
NZD/EUR	0.5976	-0.3			THB	33.37	+0.0	Nikkei	29,840	-2.2	27.7	Cotton	91.18	+1.2
NZD/GBP	0.5129	-0.3			KRW	1,185	-0.2	Shanghai	3,614	+0.2	8.3	Coffee	183.4	+0.7
NZD/JPY	76.53	-0.5			TWD	27.72	+0.0	ASX 200	7,274	+0.4	25.8	WM powder	3700.0	-0.1
NZD/CAD	0.8977	-0.4			PHP	50.15	-0.1	NZX 50	13,177	-0.0	13.5	Australian Futures		
NZ TWI	74.80	-0.3										3 year bond	99.64	-0.02
												10 year bond	98.72	-0.01

Interest Rates													
	Rates				Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last		Last	Last			
USD	0.25	0.13	0.33	1.35	USD	1.32	0.01	NZGB 5 1/2 04/15/23	1.04	-0.07	1 year	1.10	-0.07
AUD	0.10	0.01	0.21	1.44	AUD	1.27	-0.03	NZGB 0 1/2 05/15/26	1.53	-0.03	2 year	1.43	-0.06
NZD	0.25	0.61	1.44	2.09	NZD	1.86	-0.04	NZGB 0 1/4 05/15/28	1.70	-0.04	5 year	1.78	-0.04
EUR	0.00	0.06	-0.45	0.06	GER	-0.32	0.00	NZGB 1 1/2 05/15/31	1.86	-0.03	7 year	1.92	-0.03
GBP	0.10	0.07	0.56	1.01	GBP	0.81	0.01	NZGB 2 05/15/32	1.93	-0.02	10 year	2.11	-0.02
JPY	-0.04	-0.08	0.00	0.09	JPY	0.04	-0.01	NZGB 1 3/4 05/15/41	2.48	-0.05	15 year	2.30	-0.03
CAD	0.25	0.45	0.84	1.71	CAD	1.23	0.00	NZGB 2 3/4 05/15/51	2.71	-0.05			

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

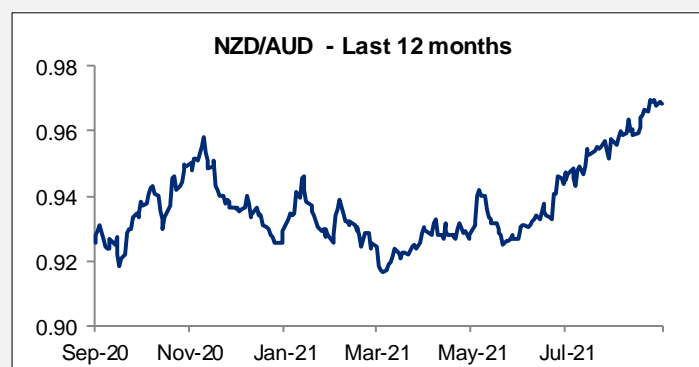
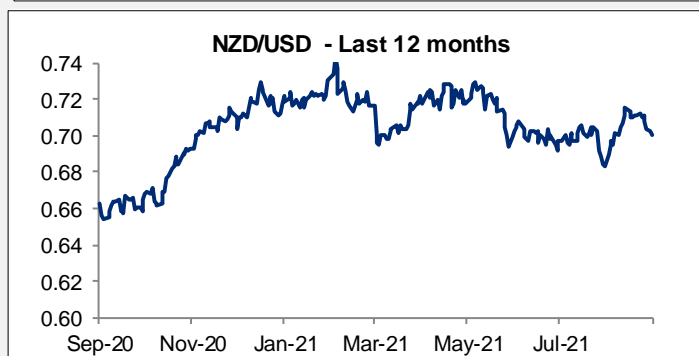
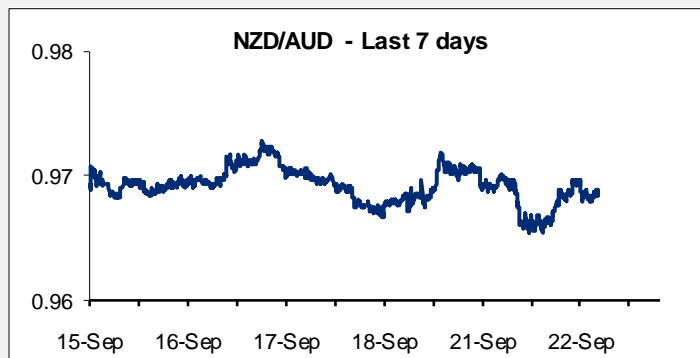
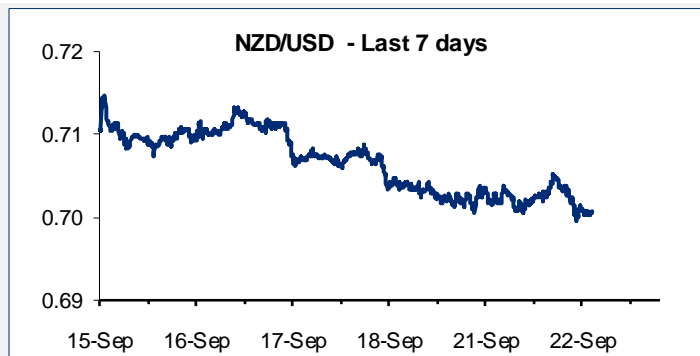
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:58

Source: Bloomberg

NZD exchange rates

22/09/2021 6:58 am		Prev. NY close
USD	0.7007	0.7027
GBP	0.5129	0.5145
AUD	0.9685	0.9690
EUR	0.5976	0.5993
JPY	76.53	76.90
CAD	0.8977	0.9010
CHF	0.6472	0.6518
DKK	4.4437	4.4560
FJD	1.4680	1.4725
HKD	5.4564	5.4720
INR	51.58	51.82
NOK	6.0801	6.1326
PKR	118.11	118.43
PHP	35.14	35.30
PGK	2.4586	2.4752
SEK	6.0855	6.0964
SGD	0.9476	0.9498
CNY	4.5308	4.5378
THB	23.39	23.43
TOP	1.5835	1.5759
VUV	78.05	78.13
WST	1.8088	1.8090
XPF	71.37	71.57
ZAR	10.3922	10.3882



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.80	-0.44
3 Months	-5.55	-5.05
6 Months	-16.46	-15.46
9 Months	-34.74	-32.76
1 Year	-57.34	-55.34

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.53	-1.81
3 Months	-11.25	-10.21
6 Months	-31.15	-29.06
9 Months	-58.37	-54.28
1 Year	-90.63	-85.85

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