

23 November 2021



## Events Round-Up

US: Existing home sales (m), Oct: 6.34 vs. 6.20 exp.

EC: Consumer confidence, Nov: -6.8 vs. -5.5 exp.

## Good Morning

US equities, bond yields and the USD dollar are all higher after President Biden reappointed Powell as chair of the Fed. US Treasury yields are up 5-7bps. The stronger USD backdrop sees the NZD head lower, down 0.7% to 0.6955, but the AUD has managed to hold its ground after last week's notable underperformance.

As widely expected, President Biden chose to reappoint Powell as Fed Chair and elevated Brainard to vice-Chair. Both are on the dovish side of the ledger of FOMC committee members and the decision ensures continuity of monetary policy at the Fed. A minority of Democrats wanted someone more committed to aggressive banking regulation and Brainard fitted the bill here, but her appointment as vice chair is seen to be a compromise. Biden is expected to announce three additional Board appointments, including the vice chair of supervision role in early December.

The announcement triggered a market reaction, seeing stronger US equities, USD and higher rates across the curve. The appointments remove a layer of uncertainty that had been overhanging the market and, at the margin, Brainard was seen to be a more dovish Chair than Powell. Additionally, cynically one might say that Powell and Brainard have been hitherto more dovish than otherwise in their commentary, in order to support their desire to get the role as Chair, and now that the appointment process is over, the market believes more hawkish stances can be adopted, which is certainly warranted by the economic dataflow.

The run of stronger than expected data releases in the US continued, with existing home sales unexpectedly rising to a nine-month high. The housing market remained tight, with just 2.4 months of supply at the current pace of sales. Eurozone consumer confidence fell by more than expected, probably not helped by the accelerating spread of COVID19 and talk of increased lockdown restrictions.

Rates are higher across the curve, with higher Fed Funds rates from the middle of next year, driving up the 2-year Treasury by 7bps to 0.57%, and the feeding through into

the rest of the curve, with the 10-year rate up 5bps to 1.60%. Not all of the move can be attributed to the Fed chair announcement as rates were already moving in a higher direction. Global rates are also higher, with Germany's 10-year up 4bp and the UK 10-year rate up 6bps.

The S&P500 was up as much as 1%, but higher rates have eaten into that gain and the index is currently up 0.4%.

Higher US rates have supported the USD across the board, with the dollar indices up 0.4%. The NZD has underperformed, falling 0.7% to a 5-week low of 0.6955 and is lower on most of the crosses apart from the yen. The higher global rates backdrop sees USD/JPY up 0.7% to 114.80 and NZD/JPY flat at 79.9.

The AUD has been one of the better performers, following last week's notable underperformance. It has fallen only slightly to 0.7230, seeing NZD/AUD down 0.6% to 0.9620. We saw some positive NZD commentary from a global bank yesterday that argued an NZD-positive view based on NZ's monetary policy outlook. We don't see it that way, with a 170bps rise in the 2-year mortgage rate already baked in and a significant handbrake on NZ's household sector, adding to the risk of a weaker consumer as COVID19 becomes endemic across the whole country. This can only reinforce the view that NZ's economy will underperform through the coming year, which is actually NZD-negative. As we've seen so far this year, the path of the NZD hasn't followed the rise in NZ-US interest rate spreads.

EUR printed a fresh 16-month low of 1.1236 against a stronger USD backdrop and not helped by the ongoing surge in COVID19 cases across much of Europe. German Chancellor Merkel said that the Covid spike is "worse than anything we've seen" and warned that hospitals would soon be overwhelmed unless the fourth wave of the pandemic is broken. In its monthly report, the Bundesbank said that inflation could spike higher than previously expected at just under 6% before retreating but could remain well above 3% for a longer period of time and for the core rate, values over 2% are conceivable.

In the domestic rates market, trading activity was quiet but the notable widening of swap-bond spreads continued, with NZGB rates down 2bps across much of the curve, while swap rates were little changed, apart from a fall at the short end. The 10-year NZGB (2031) closed at 2.55%,

compared to 10-year swap at 2.86%. The pressure will be for higher rates on the open, with the 10-year Australian bond future up 5bps in yield since the NZ close.

In the day ahead, NZ retail sales data for Q3 are released, with electronic card transactions data suggesting a double-digit fall, given the COVID19 restrictions centred in Auckland. Inflation for the quarter will be an additional downward force for the inflation-adjusted series. Tonight sees the release of PMI data across Europe and the US. The consensus expects weaker November activity figures across Europe and a modest increase for the US.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Real retail sales (q/q%)	Q3	-10.5	3.3	10:45
GE	Markit manufacturing PMI	Nov	56.7	57.8	21:30
GE	Markit services PMI	Nov	51.5	52.4	21:30
EC	Markit manufacturing PMI	Nov	57.3	58.3	22:00
EC	Markit services PMI	Nov	53.5	54.6	22:00
UK	Markit PMI manufacturing	Nov	57.3	57.8	22:30
UK	Markit services PMI	Nov	58.2	59.1	22:30
US	Markit manufacturing PMI	Nov	59.1	58.4	03:45
US	Markit services PMI	Nov	59.0	58.7	03:45

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	0.6956	-0.7	0.6955	0.7014	CHF	0.9318	+0.4		S&P 500	4,719	+0.5	32.7	Oil (Brent)	79.33	+0.5	
AUD	0.7228	-0.1	0.7228	0.7273	SEK	8.993	+0.5		Dow	35,795	+0.5	22.3	Oil (WTI)	76.39	+0.6	
EUR	1.1247	-0.4	1.1236	1.1291	NOK	8.926	+0.1		Nasdaq	15,963	-0.6	34.6	Gold	1809.2	-2.3	
GBP	1.3392	-0.4	1.3390	1.3450	HKD	7.789	-0.0		Stoxx 50	4,339	-0.4	25.1	HRC steel	1802.0	+0.1	
JPY	114.84	+0.7	114.07	114.85	CNY	6.385	-0.0		FTSE	7,255	+0.4	14.2	CRB	235.0	-0.6	
CAD	1.2696	+0.4			SGD	1.364	+0.2		DAX	16,116	-0.3	22.7	Wheat Chic.	856.3	+2.6	
NZD/AUD	0.9624	-0.6			IDR	14,249	+0.1		CAC 40	7,105	-0.4	29.3	Sugar	19.76	-1.2	
NZD/EUR	0.6185	-0.4			THB	32.99	+0.6		Nikkei	29,774	+0.1	16.6	Cotton	118.53	-0.6	
NZD/GBP	0.5194	-0.2			KRW	1,185	+0.0		Shanghai	3,582	+0.6	4.9	Coffee	233.3	-0.1	
NZD/JPY	79.88	+0.1			TWD	27.80	+0.0		ASX 200	7,353	-0.6	12.1	WM powder	4200.0	+0.1	
NZD/CAD	0.8831	-0.2			PHP	50.64	+0.4		NZX 50	12,608	-1.0	0.8	<b>Australian Futures</b>			
NZ TWI	74.68	-0.5											3 year bond	98.81	-0.05	
													10 year bond	98.13	-0.08	
<b>Interest Rates</b>																
Rates				Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields					
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last			Last				
USD	0.25	0.16	0.84	1.66	USD	1.60	0.06	NZGB 5 1/2 04/15/23	1.66	0.00	1 year	1.78	-0.01			
AUD	0.10	0.05	0.99	2.18	AUD	1.79	-0.02	NZGB 0 1/2 05/15/26	2.36	-0.02	2 year	2.43	-0.02			
NZD	0.50	0.90	2.43	2.87	NZD	2.60	-0.02	NZGB 0 1/4 05/15/28	2.48	-0.02	5 year	2.82	-0.00			
EUR	0.00	0.06	-0.35	0.15	GER	-0.30	0.04	NZGB 1 1/2 05/15/31	2.55	-0.02	7 year	2.84	0.00			
GBP	0.10	0.12	1.12	1.20	GBP	0.93	0.05	NZGB 2 05/15/32	2.60	-0.02	10 year	2.86	0.00			
JPY	-0.05	-0.10	0.00	0.12	JPY	0.08	-0.01	NZGB 1 3/4 05/15/41	2.86	-0.02	15 year	2.91	0.00			
CAD	0.25	0.49	1.58	2.16	CAD	1.73	0.07	NZGB 2 3/4 05/15/51	2.90	-0.02						

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

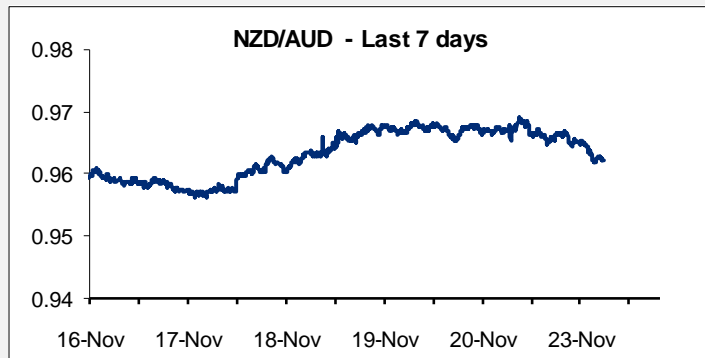
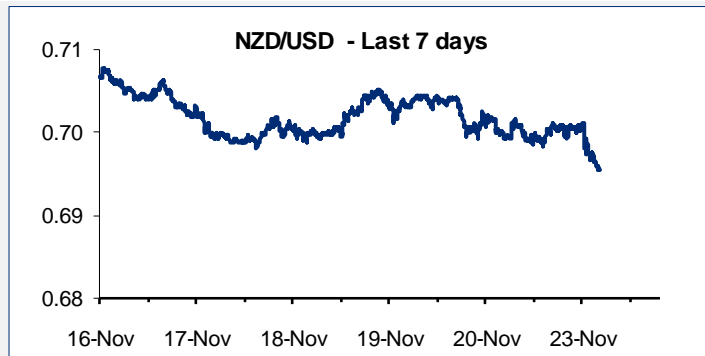
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:02

Source: Bloomberg

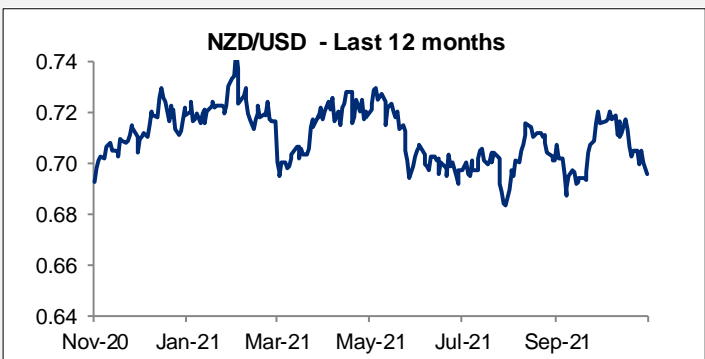
**NZD exchange rates**

23/11/2021 7:03 am		Prev. NY close
USD	0.6956	0.7004
GBP	0.5194	0.5207
AUD	0.9624	0.9681
EUR	0.6185	0.6204
JPY	79.88	79.84
CAD	0.8831	0.8853
CHF	0.6482	0.6498
DKK	4.5992	4.6140
FJD	1.4623	1.4680
HKD	5.4177	5.4566
INR	51.75	52.00
NOK	6.2089	6.2463
PKR	121.65	121.91
PHP	35.23	35.32
PGK	2.4373	2.4679
SEK	6.2553	6.2685
SGD	0.9490	0.9535
CNY	4.4415	4.4735
THB	22.87	22.94
TOP	1.5631	1.5571
VUV	78.12	78.07
WST	1.8128	1.7908
XPF	73.66	73.59
ZAR	11.0110	11.0151



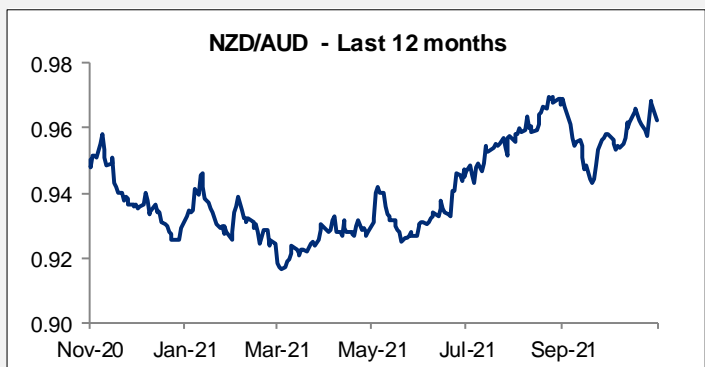
**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.64	-3.39
3 Months	-11.70	-11.20
6 Months	-32.24	-31.24
9 Months	-60.65	-58.65
1 Year	-92.60	-90.60



**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.15	-5.53
3 Months	-21.52	-20.35
6 Months	-50.93	-48.52
9 Months	-88.27	-84.06
1 Year	-126.60	-121.78



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