

23 September 2021



Events Round-Up

JN: BoJ 10-yr yield target, Sep: 0 vs. 0 exp.

EC: Consumer confidence, Sep: -4.0 vs. -5.9 exp.

US: Existing home sales (m), Aug: 5.88 vs. 5.89 exp.

US: Fed Funds rate (upper bd%), Sep: 0.25 vs. 0.25 exp.

Good Morning

Risk appetite has improved, as Evergrande survives another day, with a negotiated coupon payment, and the market wasn't spooked by the US FOMC policy update, even as it moved in a more hawkish direction. US equities are up near 1%, the US 10-year rate is little changed, while net currency movements have been modest. The NZD continues to languish around 0.70.

Risk appetite improved during the Asian trading session after troubled Chinese property developer Evergrande filed to the stock exchange that it had reached agreement with yuan bondholders on a coupon payment (worth about USD36m) due 23 September. But investors were left in the dark about how much interest would be paid and when, and what was the status of the USD bond coupon due the same day (worth USD84m).

Supporting market sentiment, in its market operations the PBoC injected 120bn yuan into the banking system, resulting in a large net liquidity injection of 90bn yuan, a signal to the market that the central bank was happy to support financial markets. After a two-day holiday break which missed the ructions in financial markets, China's CSI 300 index fell by only 0.7%.

There was keen interest in the US Fed's forecast update and latest policy assessment released this morning. The FOMC made a further step towards tapering QE by saying that if progress towards its policy goals continues broadly as expected the committee "judges that a moderation in the pace of asset purchases may soon be warranted". This aligned with market expectations that a tapering decision could come at the upcoming November or December meetings, depending on key employment data ahead of those. Chair Powell said that after a gradual tapering, QE could conclude around mid-2022 and this also aligns with market expectations.

There was more interest in the dotplot showing the committee members' expectations of the Fed Funds rate.

There was a good chance of some members bringing forward their expectations of hikes and this was evident. The committee is now evenly balanced for 2022, with 9 out of 18 members seeing a rate hike as appropriate (up from 7). This reflected an upward revision in inflation forecasts, with the core PCE deflator revised up to 3.7% y/y for 2021 (previously 3.0%) and up to 2.3% for 2022 (previously 2.1%). Furthermore, a record number of Fed members see upside risk to inflation.

Still, the pace of rate hikes is expected to be fairly moderate. The median Fed Funds rate was seen as 0.25% for 2022, 1% for 2023 and 1.75% for 2024, the last figure still below the long-term rate of 2.5%.

The Fed's update didn't seem to spook the market, which seemed to be well prepared for the shift in language on tapering and for the economic and Fed Funds rate projections. The initial market reaction was, strangely, a weaker USD, but that reversed course as Powell began speaking. The net change in the USD has been small and the BBDXY index is up 0.1% for the day.

The NZD traded slightly above 0.7050 immediately after the FOMC release, but has fallen back to around the 0.70 mark. The AUD ran up towards 0.73 but is back down at 0.7250. EUR has slipped back to 1.17 while GBP is down to 1.3630. Powell is still speaking as we go to press and currencies are still jumping around a little.

US rates have shown a slight upside bias, led by the belly of the curve. For the day so far, the 2-year rate is up just under 2bps, the 5-year rate is up just over 2bps and the 10-year rate is little changed at 1.32%.

In other news, US existing home sales fell by 2% in August, in line with market expectations. Supply conditions remained tight, with only 2.6 months of supply at that sales rate and houses were only taking an average 17 days to sell compared to 22 days a year ago. Eurozone consumer confidence unexpectedly rose in September, running near the top of its historical range, perhaps driven by an easing of COVID19 restrictions.

Commodity prices are stronger, with solid gains for copper (up nearly 3%) and iron ore prices up to USD110 per tonne. Crude oil prices rose by 2%, with further signs of tighter market conditions. The EIA reported that US crude inventories fell for a seventh straight week to their lowest

level in about three years. Brent crude traded above the USD76 per barrel mark.

In the domestic rates market, movements weren't significant across much of the NZGB and swaps curves but there remained notably good demand for long end bonds, with the 20 and 30 year rates down 2bps and 4bps respectively. OIS pricing for coming RBNZ meetings nudged down another basis point, dragging down the 2-year swap rate by less than a point to 1.43%.

Tonight, global PMI data are released, with almost all indicators across the UK, continental Europe and US expected to show some moderation in activity in September, reflecting the impact of the delta variant and global supply chain issues. The Bank of England MPC meets and policy settings are expected to remain unchanged, but the market will be interested in the tone of the Statement, given expectations that tighter policy will prevail from next year.

Coming Up

		Period	Cons.	Prev.	NZT
GE	Markit manufacturing PMI	Sep	61.4	62.6	19:30
GE	Markit services PMI	Sep	60.3	60.8	19:30
EC	Markit manufacturing PMI	Sep	60.3	61.4	20:00
EC	Markit services PMI	Sep	58.5	59.0	20:00
UK	Markit manufacturing PMI	Sep	59.0	60.3	20:30
UK	Markit services PMI	Sep	55.0	55.0	20:30
UK	Bank of England Bank rate	Sep	0.1	0.1	23:00
CA	Retail sales ex auto (m/m%)	Jul	-1.5	4.7	00:30
US	Initial jobless claims (k)	18-Sep	320	332	00:30
US	Markit manufacturing PMI	Sep	61.0	61.1	01:45
US	Markit services PMI	Sep	54.9	55.1	01:45

Source: Bloomberg, BNZ

jason.k.wong@bnz.co.nz

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7015	+0.1	0.6993	0.7056	CHF	0.9258	+0.3	S&P 500	4,390	+0.8	32.4	Oil (Brent)	75.87	+2.0
AUD	0.7250	+0.2	0.7232	0.7297	SEK	8.691	+0.0	Dow	34,352	+1.3	25.9	Oil (WTI)	71.93	+2.0
EUR	1.1696	-0.3	1.1685	1.1755	NOK	8.657	-0.3	Nasdaq	14,907	+1.1	36.0	Gold	1766.1	-0.6
GBP	1.3630	-0.2	1.3610	1.3689	HKD	7.787	+0.0	Stoxx 50	4,150	+1.3	31.2	HRC steel	1935.0	+0.0
JPY	109.82	+0.5	109.41	109.90	CNY	6.462	-0.1	FTSE	7,083	+1.5	21.5	CRB	218.3	+0.1
CAD	1.2758	-0.5			SGD	1.353	+0.1	DAX	15,507	+1.0	23.1	Wheat Chic.	716.8	+2.2
NZD/AUD	0.9676	-0.1			IDR	14,243	+0.0	CAC 40	6,637	+1.5	39.1	Sugar	19.33	+1.9
NZD/EUR	0.5998	+0.4			THB	33.48	+0.3	Nikkei	29,639	-0.7	27.0	Cotton	91.83	+1.0
NZD/GBP	0.5147	+0.3			KRW	1,184	-0.1	Shanghai	3,628	+0.4	10.6	Coffee	184.9	+0.8
NZD/JPY	77.04	+0.7			TWD	27.77	+0.2	ASX 200	7,297	+0.3	23.2	WM powder	3770.0	+1.9
NZD/CAD	0.8950	-0.3			PHP	50.27	+0.2	NZX 50	13,216	+0.3	12.9	Australian Futures		
NZ TWI	74.89	+0.2										3 year bond	99.62	-0.02
												10 year bond	98.71	0.00
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	0.13	0.35	1.34	USD	1.32	-0.01	NZGB 5 1/2 04/15/23	1.04	0.00	1 year	1.10	-0.00	
AUD	0.10	0.02	0.22	1.44	AUD	1.26	-0.02	NZGB 0 1/2 05/15/26	1.53	0.00	2 year	1.43	-0.01	
NZD	0.25	0.62	1.42	2.10	NZD	1.87	0.00	NZGB 0 1/4 05/15/28	1.71	0.01	5 year	1.78	-0.01	
EUR	0.00	0.06	-0.45	0.05	GER	-0.32	-0.01	NZGB 1 1/2 05/15/31	1.87	0.01	7 year	1.92	-0.00	
GBP	0.10	0.08	0.57	0.99	GBP	0.80	-0.01	NZGB 2 05/15/32	1.93	0.00	10 year	2.10	-0.00	
JPY	-0.04	-0.07	0.00	0.08	JPY	0.04	-0.00	NZGB 1 3/4 05/15/41	2.46	-0.02	15 year	2.28	-0.02	
CAD	0.25	0.45	0.85	1.72	CAD	1.23	0.00	NZGB 2 3/4 05/15/51	2.67	-0.04				

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

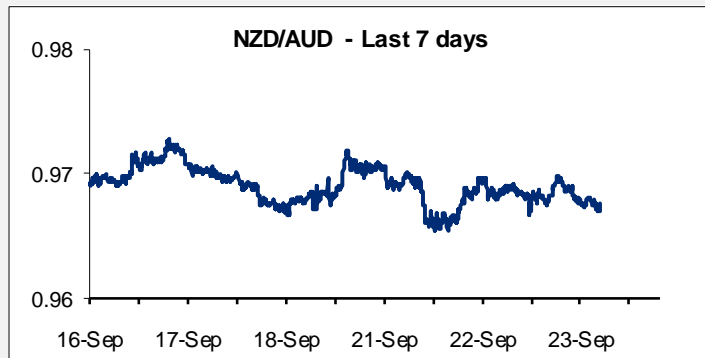
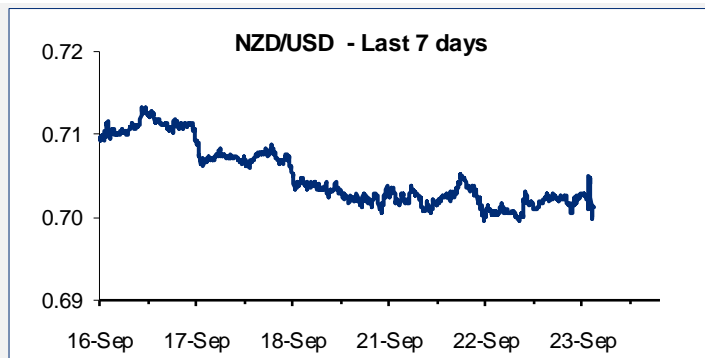
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:12

Source: Bloomberg

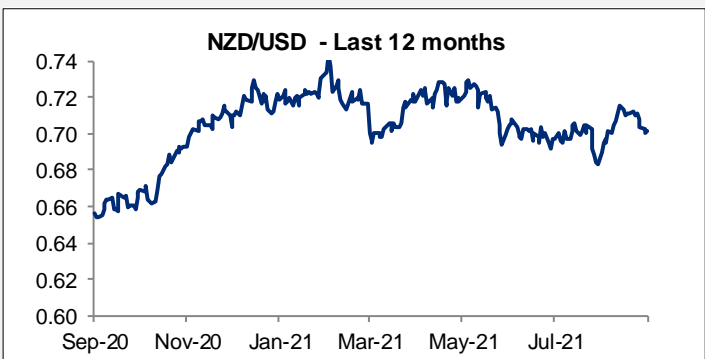
NZD exchange rates

23/09/2021 7:13 am		Prev. NY close
USD	0.7015	0.7005
GBP	0.5147	0.5128
AUD	0.9676	0.9687
EUR	0.5998	0.5974
JPY	77.04	76.52
CAD	0.8950	0.8980
CHF	0.6494	0.6470
DKK	4.4599	4.4425
FJD	1.4716	1.4704
HKD	5.4624	5.4544
INR	51.82	51.57
NOK	6.0727	6.0846
PKR	118.35	118.07
PHP	35.27	35.13
PGK	2.4614	2.4588
SEK	6.0966	6.0888
SGD	0.9493	0.9476
CNY	4.5332	4.5295
THB	23.46	23.39
TOP	1.5775	1.5831
VUV	78.25	78.03
WST	1.8048	1.8073
XPF	71.21	71.35
ZAR	10.3861	10.3954



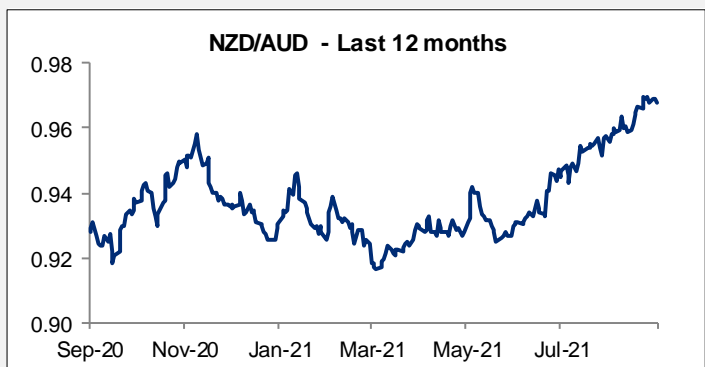
NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.85	-0.44
3 Months	-5.32	-4.82
6 Months	-16.36	-15.36
9 Months	-34.35	-32.53
1 Year	-56.77	-54.77



NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.60	-1.79
3 Months	-10.98	-9.95
6 Months	-30.99	-28.75
9 Months	-57.72	-53.85
1 Year	-90.17	-85.37



Contact Details

BNZ Research

Stephen Toplis
Head of Research
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Nick Smyth
Senior Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Ivan Colhoun
Global Head of Research
+61 2 9237 1836

Alan Oster
Group Chief Economist
+61 3 8634 2927

Ray Attrill
Head of FX Strategy
+61 2 9237 1848

Skye Masters
Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Sydney

Foreign Exchange +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

Hong Kong

Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

London

Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.