

24 November 2021



Events Round-Up

NZ: Real retail sales (q/q%), Q3: -8.1 vs. -10.5 exp.

GE: Markit manufacturing PMI, Nov: 57.6 vs. 56.9 exp.

GE: Markit services PMI, Nov: 53.4 vs. 51.5 exp.

EC: Markit manufacturing PMI, Nov: 58.6 vs. 57.4 exp.

EC: Markit services PMI, Nov: 56.6 vs. 53.5 exp.

UK: Markit PMI manufacturing, Nov: 58.2 vs. 57.3 exp.

UK: Markit services PMI, Nov: 58.6 vs. 58.5 exp.

US: Markit manufacturing PMI, Nov: 59.1 vs. 59.1 exp.

US: Markit services PMI, Nov: 57.0 vs. 59.0 exp.

Good Morning

The aftermath of the reappointment of Powell as Fed chair has continued into another day, with US Treasuries pushing 3-4bps higher, and US equities not liking the higher rates backdrop. Currency markets show modest changes. EUR is on a slightly better footing after stronger PMI data and some hawkish ECB-speak. The NZD continues to languish, ahead of today's RBNZ MPS.

Markit PMI series were released overnight and were expected to show widespread falls in activity across Europe and an uptick for the US. The opposite occurred, with more solid readings across Europe than expected, while the US services PMI underwhelmed, even if the absolute level remained consistent with strong activity. The US PMI undershot expectations on the services side by 2 points, falling to 57.0 and the message was a familiar one, with soaring cost pressure, raw material shortages and difficulty in finding staff.

The European PMIs suggested that the euro area economy was holding up well in the face of supply constraints and the surge in energy prices. However, the data predates the new lockdown restrictions that are being imposed as a fourth wave of COVID19 spreads across the continent. In the UK the composite PMI was little changed, as expected, and the key takeout from the survey was the inflationary components, with the cost indicator rising to its highest level in the 23-year history of the survey.

In central bank-speak, ECB Board member Schnabel said that risks to inflation are skewed to the upside and Bloomberg is making a big deal of the comment, noting that it is the most hawkish comment from one of the ECB's

top-six. The BoE's Haskel, seen to be a dove on the MPC, said that he's concerned about second round effects of current high inflation and that rates would have to increase if the jobs market remained tight. There is one more jobs report before the BoE MPC's next meeting in December.

The PMI data and slightly more hawkish commentary coming out of the ECB and BoE sent European rates much higher, with the UK 10-year rate up 6bps to just under 1% and European yields up in the order of 8-10bps. US rates have risen as well, although to a lesser extent, extending the lift we saw in the previous session after President Biden reappointed Powell for another term as Fed chair. Added into the mix was another FOMC member who added to the number calling for a faster taper to add some optionality to possibly hiking rates earlier through 2022. During NZ trading hours, Atlanta Fed President Bostic made that suggestion, joining Clarida, Bullard and Waller in that camp. The US 2-year Treasury rate broke up through the 0.60% mark for the first time this cycle, currently up 3bps, while the 10-year rate is up 4bps to 1.66%.

US equities are feeling the heat from higher rates, with the S&P500 currently down 0.4%, led by the rate-sensitive IT sector, which sees the Nasdaq index taking a bigger hit, currently down just over 1%.

In other news, the US said that it would release 50m barrels of crude oil from its strategic reserves in a coordinated move that will see other countries – China, Japan, India, South Korea and the UK – do the same, albeit on a much smaller scale, perhaps adding another 15-20m barrels to the tally. While the move was to help rein in higher oil prices, the stockpile will eventually need to be replenished, and the announcement was well-anticipated, so WTI and Brent crude prices are actually up for the day, in the order of 2½-3%.

The currency market shows only modest overnight changes and for the past 24 hours. USD indices hit a fresh high for the year overnight, but the net change for the USD now shows little change. EUR found some support after Schnabel's comments and the PMI release, seeing it up 0.2% overnight to 1.1260. USD/JPY broke up above the 115 mark for the first time since 2017 during NZ trading hours, and is currently close to that mark.

The NZD continues to languish and briefly went sub 0.6920 overnight, now about 0.6950. We put the NZD's soggy

performance to USD strength and ambivalence about the RBNZ's policy update today. The RBNZ's rate hike cycle is well advanced ahead of the G10 and, to date, higher NZ-global rate spreads have not provided any NZD support, with the USD in the driving seat. To the extent that the relative growth outlook matters, whether the RBNZ hikes 25bps, 50bps, or 100bps, NZ's economy is on a path which will likely see it underperform other key nations, with 175bps of higher 2-3 year fixed mortgage rates already baked into the cake, and that's NZD-negative, not positive.

The NZ bond market outperformed yesterday, being resilient in the face of much higher US and Australian bond yields. Rates were up only 1-2bps across most of the NZGB curve. The market lost some conviction of a hefty 50bps hike today from the RBNZ, with the OIS contract falling to 0.835%, consistent with a 34% chance of a 50bps hike, with a 25bps hike seen more likely. This, alongside less paying pressure, saw 2-year swap down 3bps to 2.40%.

The market has been unusually nervous heading into today's MPS. Almost all surveyed economists are picking a 25bps hike in the OCR to 0.75% and that looks like the better bet. Most would agree that a larger move is possible, but given the extent of economic uncertainty as COVID19 becomes endemic across the country and the fact that mortgage rates have ramped up recently (up in the order of 175bps) over the past few months, we don't think the RBNZ needs to panic and create more uncertainty by delivering a chunky 50bps increase – a 25bps move along with ongoing guidance that the policy rate needs to head to at least neutral or higher should suffice.

Given market pricing, some reaction in short rates is guaranteed no matter what the RBNZ decides. We'd suggest fading any NZD reaction as its path likely remains independent of local policy and more sensitive to the Fed's policy outlook.

The data calendar tonight is heavy, with Germany's IFO business survey and a number of US releases, including durables goods orders, consumer spending and the PCE deflators.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	RBNZ official cash rate (%)	Nov	0.75	0.5	14:00
GE	IFO expectations	Nov	94.6	95.4	22:00
US	Initial jobless claims (k)	20-Nov	260	268	02:30
US	Advance goods trade bal (\$b)	Oct	-95.0	-96.3	02:30
US	GDP (annlsd q/q, 2nd est.)	Q3	2.2	2	02:30
US	Durable goods orders (m/m%)	Oct	0.2	-0.3	02:30
US	Durables ex transport.	Oct	0.5	0.5	02:30
US	Personal income (m/m%)	Oct	0.2	-1.0	04:00
US	Personal spending (m/m%)	Oct	1.0	0.6	04:00
US	PCE core deflator (m/m%)	Oct	0.4	0.2	04:00
US	PCE core deflator (y/y%)	Oct	4.1	3.6	04:00
US	U. of Mich. cons. sent.	Nov	66.9	66.8	04:00
US	New home sales (k)	Oct	800	800	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	Net Day		
NZD	0.6946	-0.2	0.6916	0.6955	CHF	0.9332	+0.1	S&P 500	4,666	-0.4	30.4	Oil (Brent)	82.37	+3.4
AUD	0.7217	-0.1	0.7207	0.7232	SEK	9.047	+0.5	Dow	35,610	-0.0	20.3	Oil (WTI)	78.69	+2.5
EUR	1.1253	+0.1	1.1232	1.1275	NOK	8.921	-0.1	Nasdaq	15,651	-1.3	31.7	Gold	1784.5	-1.2
GBP	1.3372	-0.2	1.3343	1.3409	HKD	7.794	+0.0	Stoxx 50	4,284	-1.3	23.7	HRC steel	1805.0	+0.2
JPY	115.01	+0.1	114.49	115.15	CNY	6.392	+0.1	FTSE	7,267	+0.2	14.7	CRB	235.3	+0.1
CAD	1.2710	+0.1			SGD	1.366	+0.1	DAX	15,937	-1.1	21.4	Wheat Chic.	864.8	+0.8
NZD/AUD	0.9624	-0.1			IDR	14,258	+0.1	CAC 40	7,045	-1.1	28.3	Sugar	20.13	+1.9
NZD/EUR	0.6173	-0.4			THB	33.15	+0.3	Nikkei	29,774	+0.1	16.6	Cotton	119.88	+1.8
NZD/GBP	0.5194	+0.0			KRW	1,190	+0.4	Shanghai	3,589	+0.2	5.5	Coffee	242.3	+4.7
NZD/JPY	79.89	-0.1			TWD	27.78	-0.0	ASX 200	7,411	+0.8	11.5	WM powder	4200.0	+0.0
NZD/CAD	0.8828	-0.1			PHP	50.59	-0.1	NZX 50	12,689	+0.6	1.1	Australian Futures		
NZ TWI	74.63	-0.1										3 year bond	98.785	-0.02
												10 year bond	98.08	-0.02
Interest Rates							NZ Government Bonds				NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last		Last		
USD	0.25	0.17	0.84	1.72	USD	1.67	0.04	NZGB 5 1/2 04/15/23	1.65	-0.01	1 year	1.77	-0.02	
AUD	0.10	0.05	1.02	2.25	AUD	1.87	0.07	NZGB 0 1/2 05/15/26	2.37	0.02	2 year	2.40	-0.03	
NZD	0.50	0.90	2.40	2.88	NZD	2.61	0.01	NZGB 0 1/4 05/15/28	2.49	0.02	5 year	2.81	-0.00	
EUR	0.00	0.06	-0.34	0.22	GER	-0.22	0.08	NZGB 1 1/2 05/15/31	2.56	0.02	7 year	2.85	0.01	
GBP	0.10	0.11	1.13	1.23	GBP	1.00	0.06	NZGB 2 05/15/32	2.61	0.01	10 year	2.88	0.02	
JPY	-0.05	-0.10	0.00	0.12	JPY	0.08	0.00	NZGB 1 3/4 05/15/41	2.87	0.02	15 year	2.93	0.02	
CAD	0.25	0.49	1.59	2.22	CAD	1.79	0.03	NZGB 2 3/4 05/15/51	2.91	0.02				

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

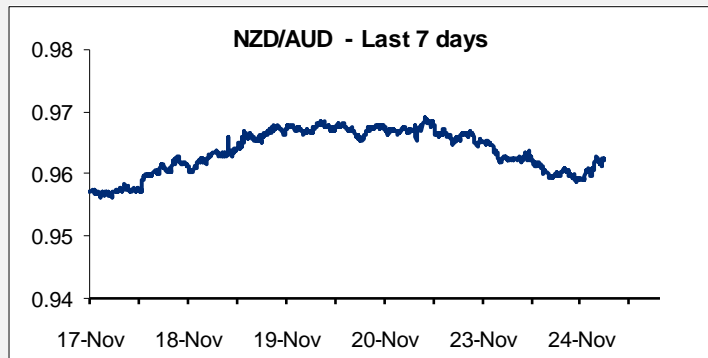
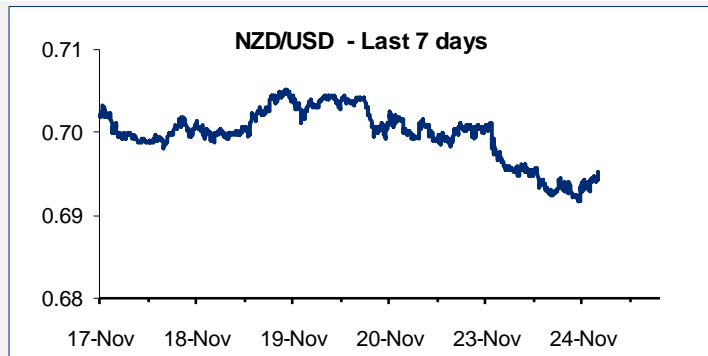
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:01

Source: Bloomberg

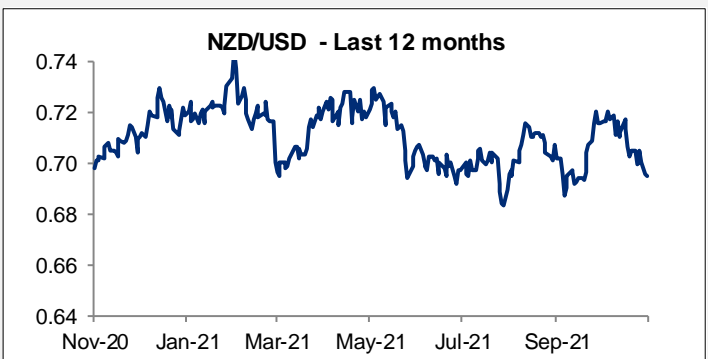
NZD exchange rates

24/11/2021 7:03 am		Prev. NY close
USD	0.6946	0.6958
GBP	0.5194	0.5194
AUD	0.9624	0.9630
EUR	0.6173	0.6192
JPY	79.89	79.93
CAD	0.8828	0.8837
CHF	0.6476	0.6490
DKK	4.5869	4.6051
FJD	1.4639	1.4682
HKD	5.4134	5.4204
INR	51.69	51.77
NOK	6.1879	6.2129
PKR	121.09	121.11
PHP	35.14	35.24
PGK	2.4484	2.4509
SEK	6.2779	6.2628
SGD	0.9483	0.9493
CNY	4.4399	4.4428
THB	22.99	22.88
TOP	1.5553	1.5590
VUV	77.91	77.92
WST	1.7807	1.7940
XPF	73.07	73.68
ZAR	10.9860	11.0341



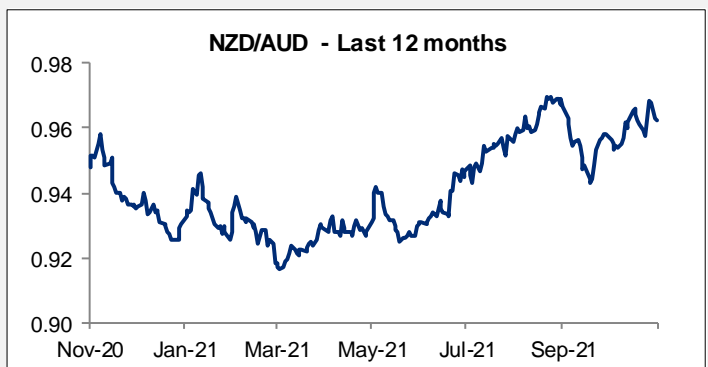
NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-4.05	-3.71
3 Months	-12.05	-11.55
6 Months	-31.52	-30.52
9 Months	-59.38	-57.32
1 Year	-91.26	-89.20



NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.89	-6.15
3 Months	-22.16	-20.96
6 Months	-50.28	-47.81
9 Months	-86.78	-82.53
1 Year	-125.25	-120.35



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