

24 September 2021



## Events Round-Up

GE: Markit Manufacturing PMI, Sep: 58.5 vs. 61.4 exp.  
 GE: Markit Services PMI, Sep: 56 vs. 60.3 exp.  
 EC: Markit Manufacturing PMI, Sep: 58.7 vs. 60.3 exp.  
 EC: Markit Services PMI, Sep: 56.3 vs. 58.5 exp.  
 UK: Markit Manufacturing PMI, Sep: 56.3 vs. 59 exp.  
 UK: Markit Services PMI, Sep: 54.6 vs. 55 exp.  
 UK: Bank of England base rate (%), Sep: 0.1 vs. 0.1 exp.  
 US: Initial jobless claims (k), 18-Sep: 351 vs. 320 exp.  
 US: Markit Manufacturing PMI, Sep: 60.5 vs. 61 exp.  
 US: Markit Services PMI, Sep: 54.4 vs. 54.9 exp.

## Good Morning

Global bond yields have had a sharp move higher overnight, with the US 10-year rate jumping 11bps, to above 1.40%, its highest level in over two months. Driving the moves higher in global rates has been more hawkish messaging from central banks, including the FOMC yesterday and the Bank of England overnight, which opened the door to a rate hike before the end of the year. Equity markets have been unperturbed. The S&P500 is up almost 1.5%, helped by some easing of concerns around the Evergrande situation. Currencies have traded with a risk-on pattern, seeing the USD and JPY lower and the NZD back to 0.7075.

At its monetary policy meeting overnight, the Bank of England appeared to open the door to an interest rate hike before the end of the year, even if that occurred before the scheduled end to its QE bond buying programme. The key line was that “any future initial tightening of monetary policy should be implemented by an increase in Bank Rate, even if that tightening became appropriate before the end of the existing UK government bond asset purchase programme”. The BoE added that recent developments, principally on the inflation side, had “strengthened the case” for the “modest tightening” projected at its August meeting, although uncertainty remained high. The market moved to price a 15bp rate increase by February and over 50bps of tightening by the end of next year. UK bond rates were up by a uniform 11bps from 2 to 10-year maturities, with the 10-year rate closing at its highest level since mid-2019, at 0.91%.

The US Treasury market also appears to have woken up to the hawkish messages from yesterday’s FOMC meeting, notably the upward shift in the ‘dot plot’, which showed 9 of 18 officials thought a 2022 rate hike would likely be appropriate, and Fed Chair Powell’s indication that tapering will likely be completed by the middle of next year. The US 10-year rate broke above 1.40% overnight for the first time since mid-July, with the yield curve reversing yesterday’s flattening move in the wake of the Fed meeting. The 10-year German rate also increased 7bps, to a 2½ month high of -0.26%.

Meanwhile, Norway’s central bank, the Norges Bank, became the first developed market central bank to raise interest rates in the post-Covid era, lifting its cash rate from 0% to 0.25% overnight, as expected, amidst a “normalizing economy”. The Norges Bank added that a further rate increase in December was “most likely” while its updated projections incorporated the cash rate getting to around 1.25% by the end of next year.

Equity markets have been resilient to the more hawkish messaging from central banks and upward jolt to bond yields. Following on from yesterday’s 1% increase, the S&P500 has added 1.4% overnight, led by the Energy and Financials sectors, the latter benefiting from the steepening of the yield curve (perceived as supportive of bank net interest margins). In addition to what appears to be a return to the ‘buy the dip’ mentality in equities, some easing of concern around the Evergrande situation (see below) has supported market sentiment. The S&P500 is now less than 2% from its all-time high, set earlier this month. Likewise, commodities have been buoyant, with Brent crude oil futures rising more than 1%, and closing at an almost 3 year high, while Singapore-listed iron ore futures have stabilised above \$110.

Evergrande’s share price jumped 18% yesterday while its 2022 USD bond price increased over \$3, to a still deeply distressed price of \$32.70. (Before getting too excited about Evergrande’s share price bounce, it is only back to where it was a week ago.) Helping sentiment, Bloomberg reported that regulators had instructed Evergrande to avoid a near-term default on its USD bonds, although there’s still no word on whether it made payment on its US\$83.5m coupon due yesterday, which has a one-month grace period before an event of default occurs. Meanwhile, Dow Jones reported the authorities had told local governments to “get ready for the possible storm”, with state intervention only to take place at the last

minute, if it can't manage its way out of the situation in an orderly way.

Currency markets have moved in a risk-on fashion overnight. The BBDXY USD index is down a chunky 0.4%, more than reversing its post-FOMC appreciation, on improving risk appetite. The JPY (-0.4%) is the only currency to fall against the USD over the past 24 hours, with USD/JPY back above 110 amidst higher US Treasury yields.

Commodity currencies have led the charge, with the NOK up 1.1%, the NZD and CAD around 1% higher and the AUD up by 0.8% from this time yesterday. The NZD is back to 0.7075, almost a full cent higher than where it was trading yesterday afternoon. While it is still early days, the currency market reaction to the more hawkish-than-expected Fed meeting is playing out very differently to that in June, which led to a sustained period of USD strength (and has seen the NZD trade well below our short-term fair value estimate since).

Economic data overnight hasn't been market moving, with investors focused on central banks and the evolving Evergrande situation. The 'flash' European PMIs showed declines in both manufacturing and services activity, albeit with ongoing supply-side disruption being one of the factors (more so for manufacturing). Even after their falls in September, the European PMIs remain at high levels on a historical basis and consistent with well above-trend growth in the region.

In the domestic rates market, swap rates were down slightly yesterday, by 1-2bps, although we will see a meaningful move higher today based on overnight global moves (the yield on the Australian 10-year bond future is 10bps higher than it was when the NZ market closed yesterday). In the local bond market, yesterday's government bond tender saw exceptionally strong demand for the shorter maturity bond, the May-2024, which came 5bps through secondary market levels at the time and had a bid-to-cover ratio above 5x. Shorter maturity bond yields fell 6-7bps while the 10-year yield fell 4bps, to 1.89%. Strong offshore demand for New Zealand bonds is no surprise given the significant yield pick-up compared to other developed markets.

There isn't much on the agenda in the session ahead. There might be some comments from Fed Chair Powell and Vice Chair Clarida, although the message is unlikely to be much different from Thursday's FOMC meeting.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade Balance (NZ\$m)	Aug	-402	10:45	
JN	CPI Ex Fresh Food, Energy (y/y%)	Aug	-0.4	-0.6	11:30
GE	IFO Expectations	Sep	96.5	97.5	20:00
US	New Home Sales (k)	Aug	712	708	02:00
US	Powell, Clarida and Bowman Host Fed Listens Event				02:00

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	0.7076	+1.0	0.7015	0.7093	CHF	0.9235	-0.2	S&P 500	4,459	+1.4	37.7	Oil (Brent)	77.26	+1.4	
AUD	0.7307	+0.8	0.7253	0.7316	SEK	8.622	-0.9	Dow	34,825	+1.7	30.1	Oil (WTI)	73.28	+1.5	
EUR	1.1745	+0.5	1.1706	1.1750	NOK	8.569	-1.1	Nasdaq	15,069	+1.2	41.7	Gold	1748.0	-1.6	
GBP	1.3731	+0.8	1.3644	1.3751	HKD	7.785	-0.0	Stoxx 50	4,195	+1.1	31.9	HRC steel	1930.0	-0.3	
JPY	110.23	+0.4	109.76	110.24	CNY	6.459	-0.1	FTSE	7,078	-0.1	20.0	CRB	221.8	+1.6	
CAD	1.2650	-1.0			SGD	1.348	-0.4	DAX	15,644	+0.9	23.7	Wheat Chic.	729.8	+1.9	
NZD/AUD	0.9684	+0.1			IDR	14,243	+0.0	CAC 40	6,702	+1.1	39.6	Sugar	19.49	+0.8	
NZD/EUR	0.6025	+0.5			THB	33.39	-0.2	Nikkei	29,639	-0.7	27.0	Cotton	93.31	+0.3	
NZD/GBP	0.5153	+0.2			KRW	1,176	-0.7	Shanghai	3,642	+0.4	13.0	Coffee	190.6	+3.3	
NZD/JPY	78.00	+1.4			TWD	27.75	-0.1	ASX 200	7,370	+1.0	25.4	WM powder	3770.0	+0.0	
NZD/CAD	0.8951	+0.0			PHP	50.35	+0.2	NZX 50	13,306	+0.7	13.8	<b>Australian Futures</b>			
NZ TWI	75.31	+0.7										3 year bond	99.59	-0.04	
												10 year bond	98.64	-0.09	

Interest Rates								NZ Government Bonds				NZ Swap Yields		
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	0.13	0.37	1.43	USD	1.40	0.10	NZGB 5 1/2 04/15/23	1.01	-0.03	1 year	1.10	0.01	
AUD	0.10	0.02	0.24	1.51	AUD	1.26	0.01	NZGB 0 1/2 05/15/26	1.48	-0.05	2 year	1.42	-0.01	
NZD	0.25	0.61	1.42	2.12	NZD	1.82	-0.04	NZGB 0 1/4 05/15/28	1.65	-0.06	5 year	1.77	-0.00	
EUR	0.00	0.06	-0.43	0.11	GER	-0.26	0.07	NZGB 1 1/2 05/15/31	1.82	-0.05	7 year	1.91	-0.01	
GBP	0.10	0.07	0.66	1.10	GBP	0.91	0.11	NZGB 2 05/15/32	1.89	-0.04	10 year	2.09	-0.02	
JPY	-0.04	-0.07	0.00	0.08	JPY	0.04	0.00	NZGB 1 3/4 05/15/41	2.41	-0.05	15 year	2.26	-0.02	
CAD	0.25	0.45	0.91	1.82	CAD	1.33	0.12	NZGB 2 3/4 05/15/51	2.62	-0.05				

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

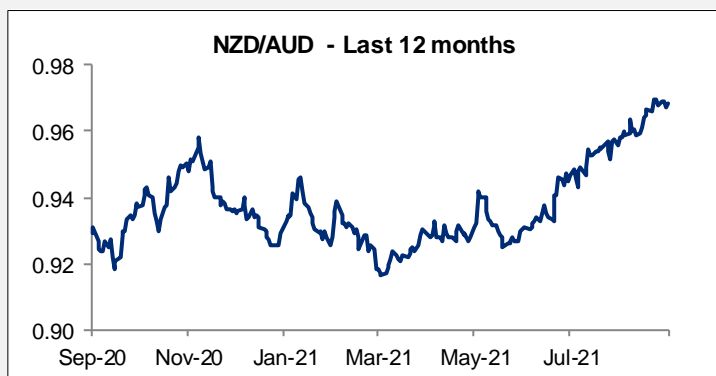
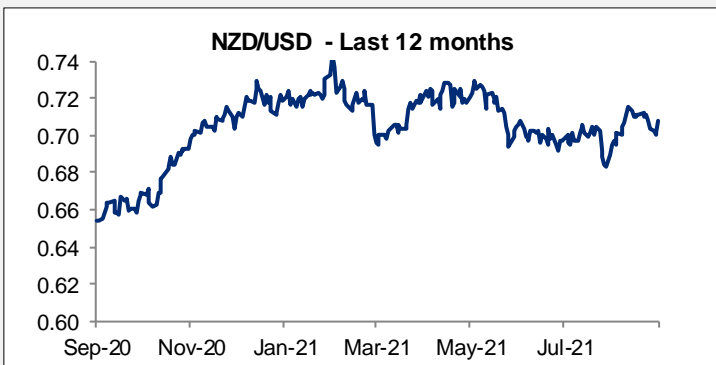
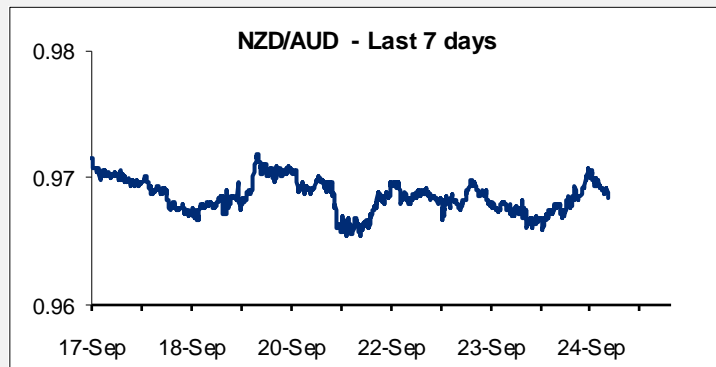
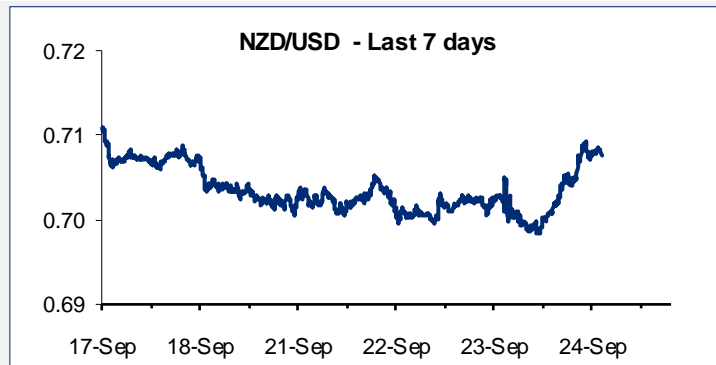
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

**NZD exchange rates**

24/09/2021 6:56 a.m.		Prev. NY close
USD	0.7076	0.7009
GBP	0.5153	0.5145
AUD	0.9684	0.9672
EUR	0.6025	0.5997
JPY	78.00	76.94
CAD	0.8951	0.8952
CHF	0.6535	0.6488
DKK	4.4800	4.4595
FJD	1.4856	1.4716
HKD	5.5083	5.4575
INR	52.11	51.60
NOK	6.0634	6.0701
PKR	119.49	118.14
PHP	35.62	35.24
PGK	2.4828	2.4593
SEK	6.1012	6.0978
SGD	0.9539	0.9486
CNY	4.5703	4.5294
THB	23.52	23.44
TOP	1.5908	1.5761
VUV	78.93	78.18
WST	1.8215	1.8047
XPF	71.86	71.15
ZAR	10.4304	10.3788



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.01	-0.72
3 Months	-5.79	-5.42
6 Months	-16.82	-15.81
9 Months	-34.55	-32.65
1 Year	-56.84	-54.84

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.69	-2.14
3 Months	-11.75	-10.89
6 Months	-31.58	-29.52
9 Months	-57.97	-54.02
1 Year	-89.54	-85.05

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