

25 January 2022



Events Round-Up

GE: Markit manufacturing PMI, Jan: 60.5 vs. 57.0 exp.

GE: Markit services PMI, Jan: 52.2 vs. 48.0 exp.

EC: Markit manufacturing PMI, Jan: 59.0 vs. 57.5 exp.

EC: Markit services PMI, Jan: 51.2 vs 52.6 exp.

UK: Markit services PMI, Jan: 53.3 vs. 54.0 exp.

UK: Markit PMI manufacturing, Jan: 56.9 vs. 57.6

US: Markit manufacturing PMI, Jan: 55.0 vs. 56.7 exp.

US: Markit services PMI, Jan: 50.9 vs. 55.4 exp.

Good Morning

After last week's notable selloff in global equity markets, selling pressure has intensified overnight, with Russia/Ukraine on the brink of war adding to investor concerns, alongside the expectations of a slower global economy and tighter global monetary policy. As we go to print, US equities are down in the order of 3-3½%, following a near-4% slump in European equities. Bond markets show a fairly muted rally under the circumstances, while safe haven currencies have outperformed. The AUD is off more than 1% while the NZD has printed a fresh 14-month low.

Following Russia's military build-up around Ukraine over recent months, NATO looked to be preparing for war and said allies were putting military forces on standby and sending ships and jet fighters to its northeastern and southeastern member countries. This follows Putin's demands NATO pull its forces back. UK intelligence suggested that Russia was planning a "lightning war" that could take out Ukraine's capital Kyiv. Overnight, EU foreign ministers renewed their warning that they would impose "massive consequences" against Russia if it invades Ukraine.

Russia's ruble has been the worst performing of EM currencies for the day, falling about 2½%, even as its central bank stopped foreign currency purchases to ease the pressure on the currency. The threat of war has spilled over into developed markets, seeing a big fall in risk appetite, driving investors into safe havens. After falling over 5½% last week, the biggest drop since March 2020 and more a reflection of expectations for global monetary policy, the S&P500 has fallen about 3% while the Nasdaq index is down about 3½%. Earlier, the Euro Stoxx 600 index closed down 3.8%.

The S&P500 is now down over 11% from its intra-day record set in the first week of 2022, while the Nasdaq index is down over 18% from its November high.

Considering the big hit to equities, the rally in global bond markets has been fairly tepid, with European 10 year rates down no more than 4bps, while the US 10-year rate is down only 4bps to 1.72%. Likely preventing a stronger rally is some nerves ahead of the next FOMC meeting Thursday morning NZ time, where the Fed is still expected to signal a March rate hike in the face of surging inflationary pressures and an extraordinarily tight labour market. The threat of war has done little to change monetary policy expectations, with the Fed Funds curve through 2022 little changed to start the week, with four hikes still well priced for this year.

The threat of war has seen European gas prices surge, with the Dutch benchmark up 16% and the UK benchmark up 19%, albeit both are still well below (in the order of 50%) the peaks seen in December. Oil prices are down in the order of 2-2½%.

Safe haven currencies have outperformed, with the USD the best performing of the majors, seeing the BBDXY USD index up 0.4%, its mini-selloff mid-January now looking like a distant memory. JPY has also been well supported, with USD/JPY up less than 0.1% since last week's close to 113.70, while EUR hasn't fared too badly either, down slightly to 1.1330.

At the other end of the leaderboard, the AUD has been the worst performing of the key majors we closely follow, down around 1% for the week so far to move just below 0.71, before recovering a little, still more than a cent above its early December low just below 0.70. The NZD has fallen 0.6% and has printed a fresh 14-month low of 0.6661. NZD/AUD briefly recovered the 0.94 handle early this morning but is generally lower on the crosses, going sub-0.59 against the euro and sub 76 against the yen. GBP hasn't performed very well either, and NZD/GBP is flat about 0.4960.

The threat of war has overshadowed the global PMI data that were released. The Markit PMIs for the US (less closely followed than the ISM indices) both notably fell, but more so for the services index which dived nearly 7pts to an 18-month low of 50.8. Labour shortages, employee absences and the Omicron wave reportedly weighed on

growth. On a more positive note, demand looked less affected and the rate of supply chain deterioration eased.

The euro-area PMIs were weaker than expected for services, but stronger for manufacturing. Encouragingly, there were signs of the supply crunch easing that helped factories boost production, while manufacturing cost pressures also eased. UK PMIs were on the softer side of expectations.

NZ's rates market was quiet yesterday, with Wellington on holiday. Swap rates lifted by 2bps across most of the curve, while there were no NZFMA marks for the bond market (hence the no-change figures in the tables).

There was no market reaction to Sunday's announcement that the country would move into the highest "red" setting of the traffic light system for COVID, after confirmation that Omicron has begun to spread in the community. This is a fairly light-handed setting that mainly affects large gatherings and the small percentage of unvaccinated folk and will not do much to prevent a surge in cases over coming weeks, consistent with a "let-it-rip" strategy. The sooner NZ gets over this wave, the sooner things can return to normal but in the meantime we can expect more cautious consumer behaviour and some supply-side disruptions to hit the economy, as seen in other countries. These short-term economic effects have little implication for NZ's monetary policy outlook.

In the day ahead, NZ's performance of services index is released, followed by Australian CPI data this afternoon. The market expects another 0.7% q/q trimmed mean outturn. If that's the case then annualised core inflation

would have been running at 2.8% during 2H21, near the top of the RBA's 2-3 target range – certainly suggesting that QE has outstayed its welcome and, with inflation pressures expected to lift further and the cash rate well below neutral, a beginning to the tightening cycle could easily be justified. One just needs the RBA to accept that its forecasts have been wrong and a change in policy guidance is now appropriate.

The key releases tonight are Germany's IFO business survey and US consumer confidence. Key releases over the rest of the week include NZ CPI, the advanced estimate of US Q4 GDP, the US employment cost index and policy updates from the Fed and Bank of Canada. So, alongside watching events on the Ukraine border there are plenty of risk events to affect the market.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Performance of services index	Dec		46.5	10:30
AU	CPI (q/q%)	4Q	1.0	0.8	13:30
AU	CPI (y/y%)	4Q	3.2	3	13:30
AU	CPI trimmed mean (q/q%)	4Q	0.7	0.7	13:30
AU	CPI trimmed mean (y/y%)	4Q	2.3	2.1	13:30
AU	NAB business conditions	Dec		12	13:30
GE	IFO expectations	Jan	93.0	92.6	22:00
US	Conf. Board consumer confid.	Jan	111.4	115.8	04:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**					
Indicative overnight ranges (*)				Other FX		Major Indices				Price					
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6681	-0.5	0.6661	0.6719	CHF	0.9128	+0.1		S&P 500	4,265	-3.0	11.0	Oil (Brent)	86.20	-1.9
AUD	0.7119	-0.9	0.7091	0.7171	SEK	9.296	+1.1		Dow	33,559	-2.0	8.3	Oil (WTI)	83.25	-2.2
EUR	1.1333	-0.1	1.1291	1.1336	NOK	8.998	+1.0		Nasdaq	13,395	-2.7	-1.1	Gold	1838.3	+0.4
GBP	1.3467	-0.6	1.3440	1.3555	HKD	7.786	-0.0		Stoxx 50	4,054	-4.1	12.5	HRC steel	1429.0	+0.3
JPY	113.73	+0.0	113.47	114.00	CNY	6.331	-0.1		FTSE	7,297	-2.6	9.0	CRB	248.5	-0.6
CAD	1.2665	+0.7			SGD	1.347	+0.1		DAX	15,011	-3.8	8.2	Wheat Chic.	799.3	+1.8
NZD/AUD	0.9385	+0.4			IDR	14,335	-0.0		CAC 40	6,788	-4.7	22.1	Sugar	18.80	-0.6
NZD/EUR	0.5895	-0.4			THB	33.06	+0.3		Nikkei	27,588	+0.2	-4.3	Cotton	119.99	-0.6
NZD/GBP	0.4961	+0.1			KRW	1,196	+0.2		Shanghai	3,524	+0.0	-2.8	Coffee	233.8	-1.7
NZD/JPY	75.98	-0.5			TWD	27.70	-0.0		ASX 200	7,140	-0.5	4.6	WM powder	4440	+0.9
NZD/CAD	0.8461	+0.1			PHP	51.30	-0.2		NZX 50	12,191	-1.3	-9.0	Australian Futures		
NZ TWI	71.64	-0.3											3 year bond	98.61	-0.02
													10 year bond	98.09	0.01

Interest Rates													
	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	0.26	1.13	1.78	USD	1.72	-0.04	NZGB 5 1/2 04/15/23	1.64	0.00	1 year	1.86	-0.00
AUD	0.10	0.07	1.13	2.15	AUD	1.94	0.02	NZGB 0 1/2 05/15/26	2.36	0.00	2 year	2.36	0.02
NZD	0.75	1.07	2.36	2.81	NZD	2.53	0.00	NZGB 0 1/4 05/15/28	2.44	0.00	5 year	2.74	0.02
EUR	0.00	0.06	-0.25	0.36	GER	-0.11	-0.04	NZGB 1 1/2 05/15/31	2.51	0.00	7 year	2.78	0.02
GBP	0.25	0.55	1.14	1.07	GBP	1.13	-0.05	NZGB 2 05/15/32	2.53	0.00	10 year	2.81	0.02
JPY	-0.04	-0.02	0.05	0.19	JPY	0.14	0.01	NZGB 1 3/4 05/15/41	2.85	0.00	15 year	2.85	0.02
CAD	0.25	0.77	1.76	2.22	CAD	1.75	-0.04	NZGB 2 3/4 05/15/51	2.91	0.00			

* 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 07:08

Source: Bloomberg

NZD exchange rates

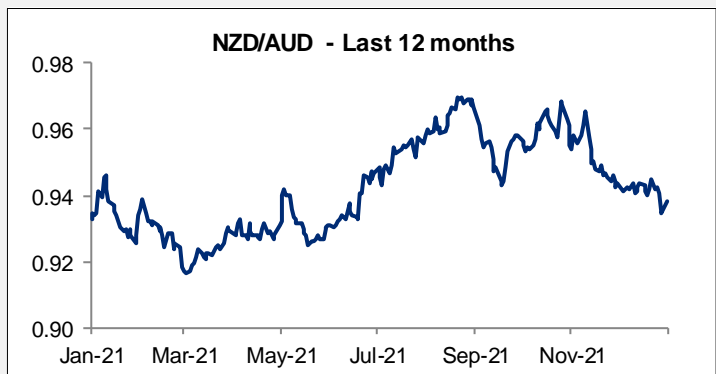
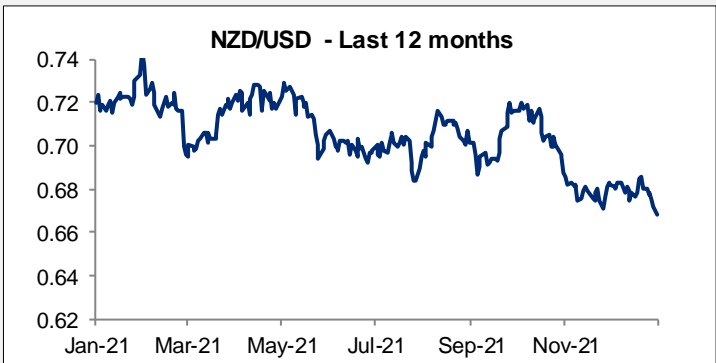
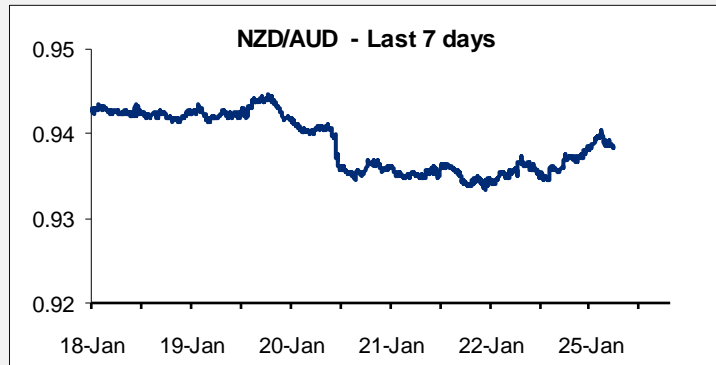
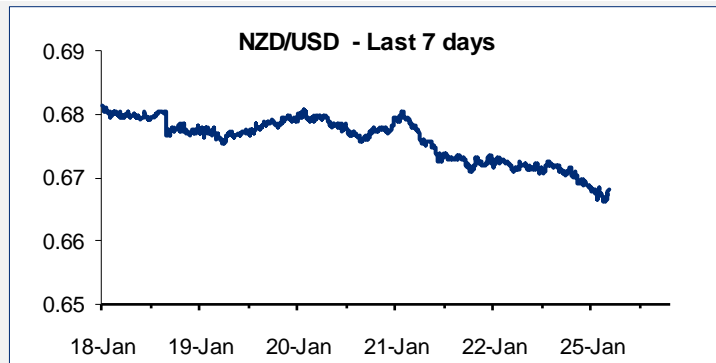
25/01/2022 7:09 am		Prev. NY close
USD	0.6681	0.6717
GBP	0.4961	0.4956
AUD	0.9385	0.9349
EUR	0.5895	0.5921
JPY	75.98	76.36
CAD	0.8461	0.8451
CHF	0.6098	0.6123
DKK	4.3883	4.4075
FJD	1.4191	1.4270
HKD	5.2019	5.2302
INR	49.82	49.99
NOK	6.0113	5.9823
PKR	117.86	118.34
PHP	34.27	34.52
PGK	2.3516	2.3568
SEK	6.2108	6.1774
SGD	0.8997	0.9033
CNY	4.2295	4.2577
THB	22.03	22.14
TOP	1.5000	1.5105
VUV	75.73	75.86
WST	1.7249	1.7499
XPF	70.44	70.44
ZAR	10.2541	10.1455

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.53	-3.24
3 Months	-11.68	-11.18
6 Months	-28.42	-27.42
9 Months	-50.47	-48.85
1 Year	-74.82	-72.82

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.05	-5.37
3 Months	-21.18	-20.10
6 Months	-49.78	-47.47
9 Months	-82.32	-78.68
1 Year	-114.68	-109.86



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