

25 November 2021



## Events Round-Up

NZ: RBNZ official cash rate (%), Nov: 0.75 vs. 0.75 exp.  
 GE: IFO expectations, Nov: 94.2 vs. 94.6 exp.  
 US: Initial jobless claims (k), 20-Nov: 199 vs. 260 exp.  
 US: Advance goods trade bal (\$b), Oct: -82.9 vs. -95.0 exp.  
 US: Durable goods orders (m/m%), Oct: -0.5 vs. 0.2 exp.  
 US: Durables ex transport., Oct: 0.5 vs. 0.5 exp.  
 US: Personal income (m/m%), Oct: 0.5 vs. 0.2 exp.  
 US: Personal spending (m/m%), Oct: 1.3 vs. 1.0 exp.  
 US: PCE core deflator (m/m%), Oct: 0.4 vs. 0.4 exp.  
 US: PCE core deflator (y/y%), Oct: 4.1 vs. 4.1 exp.  
 US: U. of Mich. cons. sent., Nov: 67.4 vs. 66.9 exp.  
 US: New home sales (k), Oct: 745 vs. 800 exp.

## Good Morning

Another string of strong US data releases and another FOMC member potentially joining the faster QE taper camp have supported higher US short rates and the USD. That has added to downside pressure on the NZD seen after the RBNZ's 25bps hike yesterday, sustaining a sub-0.69 move lower, and down on all the key crosses.

Key US data releases overnight were stronger than expected. Initial jobless claims plunged to 199k, the lowest reading since 1969. While the strength of the labour market surprised the market, this was forewarned by Pantheon Macroeconomics who, while acknowledging the declining trend, noted the seasonal quirks in the data and picks a sharp reversal to 250k next week.

Personal income and spending data for October were strong, the former driven by higher wages. This was despite the fall in consumer sentiment to a decade-low, even though the UoM survey showed a slight upward revision from the preliminary estimate. That survey looks to have a political bias and is currently providing a misleading read on consumer spending.

The headline fall in durable goods orders was weighed down by aircraft, with the core series showing a decent rise of 0.5% m/m and upward revisions, consistent with the very strong rebound in business investment continuing. The trade deficit was much lower than expected, driven by a strong rebound in exports in

October, setting the scene for a positive net trade contribution to GDP in Q4 after it detracted from growth in Q3.

On the inflation side, the PCE deflators didn't surprise, forewarned by recent CPI data, with the core deflator up to a 30-year high of 4.1% y/y.

San Francisco Fed President Daly joined the growing team of FOMC members suggesting the possibility of a faster taper of QE. She wants to see the November jobs and CPI reports before committing, and two high readings would support that decision at the mid-December meeting.

The strong data and Daly's comments supported another push higher in US short rates, with almost three rate hikes now priced in for next year, backloaded from mid-22, with the Jan-22 to Jan 23 Fed Funds rate spread currently trading at 70bps. The 2-year Treasury rate is up 2bps for the day to 0.63%, while a clear flattening bias is evident, with the 10-year rate down 2bps to 1.65%, after rising to as high as 1.69% a few hours ago.

In other overnight news, Olaf Scholz, the current Finance Minister, looks set to become the next German Chancellor, after coalition negotiations amongst a three-way alliance of the Social Democrats, Greens and Free Democrats. A three-party government is a first for Germany and it remains to be seen how well it can function, but a key proposal includes returning to the constitutional debt limits by 2023 and climate change policies will be a top agenda item.

After yesterday's move by the US and others to release oil from their strategic reserves amid high oil prices, the WSJ reports that Saudi Arabia and Russia are considering a move to pause their OPEC-led agreed production increases. Brent crude pushed higher, to USD83 per barrel before falling back to flat on the day, after yesterday's solid 3+% increase.

Strong US data and higher short rates have given the USD another boost, seeing the key dollar indices up 0.4% to a fresh 16-month high. EUR has broken below 1.12, with the US data and the underwhelming Germany IFO survey reinforcing the positive US versus Eurozone economic surprise relativity of late. USD/JPY printed a 4½-year high about 115.50, while GBP printed a new low for the year near 1.3320.

The commodity currencies, excluding the NZD, have shown a little resilience overnight, but this still sees the AUD down to around 0.7190. The NZD weakened after yesterday's RBNZ MPS and USD strength has dragged it lower overnight, currently trading near its lows for the day below 0.6860, but ahead of the low for the year in August of 0.6805, a level which will be widely seen as technical support. Key NZD crosses are all lower.

The RBNZ's MPS didn't throw up any surprises, given the backdrop of significant inflationary pressure and employment above its maximum sustainable level, with a widely anticipated 25bps hike and a long, regular series of hikes projected through next year and into 2023. The Bank noted that the OCR would likely need to be raised above its neutral rate, seen to be about 2%, and projected a terminal OCR of 2.6%. MPC discussed whether a faster tightening path was required and considered whether a 50bps hike was appropriate at this meeting. But the Bank noted the uncertainty about how the country adapts to living with COVID19 across the country and the tightening in monetary conditions already evident in higher mortgage and business lending rates. We noted these factors in our daily report yesterday.

With the market pricing in a 34% chance of a larger 50bps hike going into the meeting, the natural response was a decent rally in rates, led by the short end of the curve. The 2-year swap rate ended the day down 16bps to 2.25%, while the 10-year rate fell by 7bps to 2.81%. Through the next year, the OIS market shows a smooth, similar rate path as projected by the Bank. The revealed preference by the RBNZ means that a 50bps hike at any meeting this cycle looks off the cards.

The NZGB market also showed a clear flattening bias and the 10-year rate fell 6bps to 2.50%. The Bank noted that it would gradually manage LSAP bond holdings down, in a way that maintains the smooth functioning of financial markets. But it wasn't prepared to discuss whether this meant outright selling of its bonds at some stage. We'll know more about the Bank's policy on this early next year.

One local economist described the RBNZ as bird-brained and spineless in opting for a more cautious 25bps hike. We couldn't disagree more and have to give credit to the Bank for executing an almost perfect textbook tightening cycle. One could easily criticise the Bank for keeping policy too easy earlier this year, but in July it recognised the need to change after the growth/inflation dataflow. It provided clear guidance of its intentions, the market understood the framework and this has delivered a substantial lift in swap rates that have fed into a 175bps lift in the key 2-3 year fixed rate mortgages in the space of just four months. Based on current guidance the tightening cycle isn't that far from complete. A bonus for the RBNZ has been that the NZD hasn't rocketed ahead, even with guidance of a 200-250bps tightening cycle, with the TWI tracking sideways since that July pivot. Job well done.

Meanwhile the policy setters at the RBA and Fed are pretending that inflation isn't a problem and still have emergency policy settings for an emergency that ended over a year ago, and officially aren't even talking about the prospect of rate hikes in the near future. That portrays the RBNZ's actions in an even better light.

In the day ahead, the minutes from the FOMC's November meeting are released this morning but have been superseded by the dataflow since, with a number of members now calling for a faster taper. Only second tier releases are scheduled, including NZ trade data today, ahead of what could be a quiet end to the week with the US Thanksgiving holiday.

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## Coming Up

		Period	Cons.	Prev.	NZT
US	FOMC meeting minutes	Nov			08:00
NZ	Trade balance (\$m)	Oct		-2171	10:45
AU	Private capital exp. (q/q%)	Q3	-2.0	4.4	13:30
GE	GfK consumer confidence	Dec	-1.0	0.9	20:00

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	0.6857	-1.3	0.6856	0.6924	CHF	0.9353	+0.3	S&P 500	4,691	-0.0	29.0	Oil (Brent)	82.17	-0.2
AUD	0.7189	-0.5	0.7186	0.7228	SEK	9.133	+1.0	Dow	35,757	-0.2	19.0	Oil (WTI)	78.39	-0.1
EUR	1.1194	-0.5	1.1186	1.1255	NOK	8.978	+0.9	Nasdaq	15,797	+0.1	31.2	Gold	1785.4	+0.1
GBP	1.3320	-0.4	1.3319	1.3390	HKD	7.799	+0.1	Stoxx 50	4,276	-0.2	21.9	HRC steel	1664.0	+0.4
JPY	115.46	+0.3	114.83	115.48	CNY	6.392	+0.0	FTSE	7,286	+0.3	13.3	CRB	238.1	+1.2
CAD	1.2670	+0.0			SGD	1.369	+0.2	DAX	15,878	-0.4	19.5	Wheat Chic.	852.8	-1.7
NZD/AUD	0.9538	-0.8			IDR	14,265	+0.1	CAC 40	7,042	-0.4	26.7	Sugar	19.93	-0.9
NZD/EUR	0.6126	-0.8			THB	33.40	+0.8	Nikkei	29,303	-1.6	11.4	Cotton	120.60	+0.2
NZD/GBP	0.5148	-0.9			KRW	1,186	-0.3	Shanghai	3,593	+0.1	6.9	Coffee	244.6	+1.1
NZD/JPY	79.17	-1.0			TWD	27.79	+0.0	ASX 200	7,399	-0.2	10.7	WM powder	4225.0	+0.6
NZD/CAD	0.8688	-1.3			PHP	50.34	-0.5	NZX 50	12,767	+0.6	0.8	<b>Australian Futures</b>		
NZ TWI	73.84	-1.1										3 year bond	98.815	0.02
												10 year bond	98.12	0.02

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	0.18	0.87	1.70	USD	1.65	-0.01	NZGB 5 1/2 04/15/23	1.51	-0.14	1 year	1.59	-0.17
AUD	0.10	0.05	1.00	2.15	AUD	1.86	-0.01	NZGB 0 1/2 05/15/26	2.26	-0.11	2 year	2.25	-0.16
NZD	0.75	0.87	2.22	2.81	NZD	2.56	-0.04	NZGB 0 1/4 05/15/28	2.40	-0.09	5 year	2.71	-0.11
EUR	0.00	0.06	-0.35	0.23	GER	-0.23	-0.01	NZGB 1 1/2 05/15/31	2.50	-0.06	7 year	2.76	-0.09
GBP	0.10	0.12	1.13	1.24	GBP	1.00	-0.00	NZGB 2 05/15/32	2.56	-0.04	10 year	2.81	-0.07
JPY	-0.05	-0.10	0.01	0.13	JPY	0.08	0.01	NZGB 1 3/4 05/15/41	2.85	-0.02	15 year	2.86	-0.07
CAD	0.25	0.49	1.59	2.19	CAD	1.78	-0.03	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 06:57

Source: Bloomberg

**NZD exchange rates**

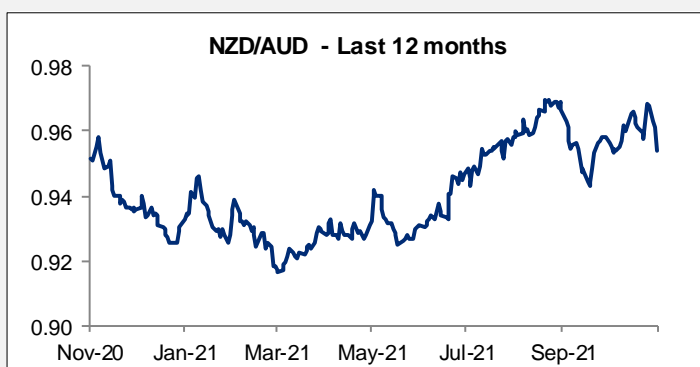
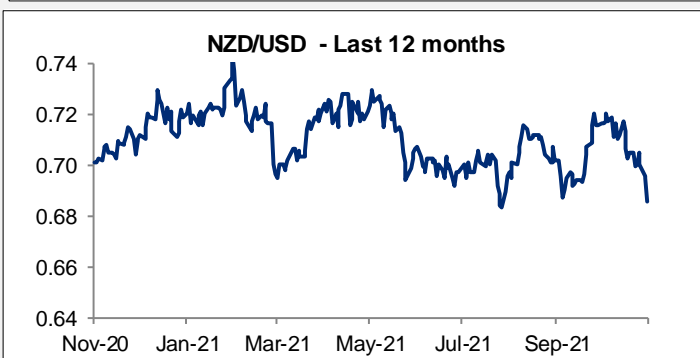
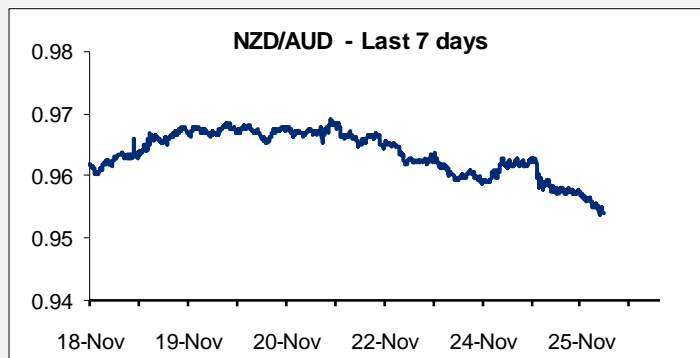
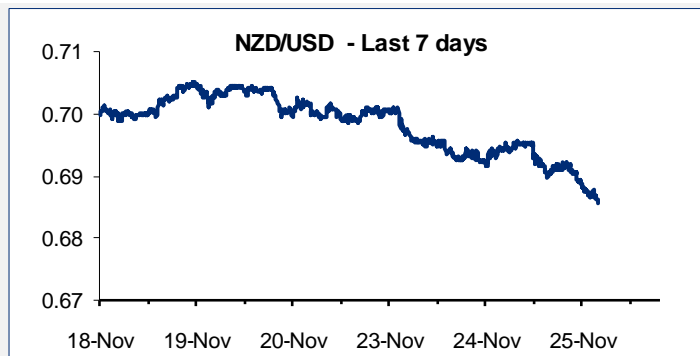
25/11/2021 6:57 am		Prev. NY close
USD	0.6857	0.6949
GBP	0.5148	0.5194
AUD	0.9538	0.9614
EUR	0.6126	0.6178
JPY	79.17	80.01
CAD	0.8688	0.8804
CHF	0.6413	0.6483
DKK	4.5550	4.5941
FJD	1.4475	1.4620
HKD	5.3474	5.4163
INR	51.01	51.72
NOK	6.1564	6.1831
PKR	119.92	120.96
PHP	34.52	35.16
PGK	2.4060	2.4468
SEK	6.2627	6.2852
SGD	0.9385	0.9487
CNY	4.3833	4.4418
THB	22.86	23.00
TOP	1.5364	1.5560
VUV	76.87	77.97
WST	1.7610	1.7806
XPF	72.13	73.59
ZAR	10.9193	11.0038

**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.29	-3.00
3 Months	-10.15	-9.65
6 Months	-26.64	-25.64
9 Months	-50.70	-48.70
1 Year	-78.58	-76.58

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.86	-5.10
3 Months	-19.48	-18.13
6 Months	-43.99	-41.62
9 Months	-76.79	-72.65
1 Year	-110.90	-106.11



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