

25 November 2022



Events Round-Up

SW: Riksbank policy rate (%), Nov: 2.5 vs. 2.5 exp.

GE: IFO business climate, Nov: 86.3 vs. 85.0 exp.

Good Morning

For the third day running, risk appetite is on a higher trajectory, with higher global equity markets, lower global rates and a weaker USD. It has been quiet overnight with US markets closed for Thanksgiving. The NZD pushed up to a fresh three-month high towards 0.63 and, following a 14% gain from the mid-October low, the technical RSI has reached the “overbought” level of 70.

With US markets closed, trading conditions have been light, but it has been a case of “more of the same” this week. The Euro Stoxx 600 index closed up 0.5% and S&P futures are up 0.3%. Global rates continue to show downside pressure, with flatter curves. Germany’s 10-year rate is down 8bps to 1.85%, extending this week’s fall to 16bps, against little change in the 2-year rate. As we noted yesterday, Germany’s 2s10s curve is the most inverted since 1992.

US 10-year Treasury futures are pointing towards small downside pressure on rates, adding to the 14bps fall already seen this week. After we went to print yesterday, the FOMC minutes published were seen as dovish although we saw little news in them – the market forgetting that there was a less hawkish tilt in the November FOMC Statement, representing the view of the committee, and it was only Powell’s subsequent press conference that came across hawkish.

The minutes of the ECB’s late-October meeting released overnight suggested that one reason for the 75bps increase was that it was fully priced, and a smaller hike would imply an unwelcome loosening of financial conditions. Ahead of the December meeting, market pricing is closer to a 50bps hike and recent leaks from policymakers suggest that is the preferred option at this stage. Separately though, the ECB’s Schnabel, who is one of the more respected members closely watched by the market, said that rates probably need to reach restrictive levels and she didn’t seem to rule out a 75bps hike next month, saying that “incoming data so far suggest that the room for slowing down the pace of interest rate adjustments remains limited”.

Sweden’s Riksbank hiked by 75bps to 2.5%, as expected, a dialled-down pace from the 100bps hike in September, and with a projected terminal rate around 3%. The economic forecasts didn’t look dissimilar to those of the RBNZ, with the Riksbank projecting inflation to remain high, averaging 5.7% next year, a 20% slump in house prices and a 1.2% contraction in GDP.

In economic data, Germany’s IFO business survey showed further modest improvement off a very depressed base, driven by the expectations component. At 86.3, the index is still consistent with economic recession, but pessimism about the outlook has reduced, one possible factor being that a warmer than usual autumn has reduced the chance of widespread power shortages.

Yesterday, reported new daily COVID infections in China reached a record high of just under 30k, topping the level reached in the April Shanghai outbreak. This time, the spread of cases is across a wider range of cities and lockdown efforts have been less strict. We’re doubtful the outbreak can be successfully contained and expect some economic disruption as the country learns to live with COVID, just as every other country has – some short-term pain for long-term gain. The market isn’t particularly spooked by the change in strategy, with more visibility on the endgame.

The FT reports that following the government’s relaxed guidelines on lending to the property sector, China’s largest lenders are ready to pump over USD162b of credit into the country’s property developers. One analyst noted the rare disclosure of the loan details, suggesting that authorities wanted to shore up confidence in the sector.

In currency markets, the USD remains on the backfoot, with the DXY index down 0.2% for the day. EUR pushed back up through 1.04 while GBP continued its outperforming run, reaching a three-month high of 1.2150.

The NZD also pushed up to a three-month high, reaching just under 0.6290 at the London close. Chartists will be seeing whether it can break the 200-day moving average of 0.6302. During the NZD downturn that really kicked off from June 2021, the NZD has made several upside breaks of the 200-day moving average but has subsequently retreated. Our projections show a stronger NZD through next year, although following a 14% gain off the mid-October low, a period of consolidation is probably now

overdue. The technical RSI has breached 70, typically seen as a short-term “overbought” signal.

The AUD has pushed up to 0.6770, and NZD/AUD is flat around 0.9265, showing little progress despite the hawkish RBNZ update this week. We’re picking some NZ-AU rate compression ahead, which is a headwind for the cross and, following a decent recovery, it could well fall back over coming months.

Domestic rates fell yesterday, with the curves showing ongoing flattening pressure. At the tender, there was strong demand for NZGBs at the longer end of the curve supporting the move, with the 10-year rate down 8bps to 4.12%. After the post-MPS lift in rates, there was some retracement in the swaps market, with 2-year swap down 3bps to 5.25% and 10-year swap down 6bps to 4.42%, the 2s10s spread inverting further to minus 83bps and making further progress towards the level seen ahead of the depth of the GFC.

In the day ahead, we’ll be interested in NZ consumer confidence and retail sales data. Given the recent volatility the range for Q3 real retail sales is a very wide minus 2% to plus 3.5%, with the consensus picking a modest increase.

jason.k.wong@bnz.co.nz

Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|--------------------------------------|--------|-------|-------|-------|
| NZ | ANZ consumer confidence | Nov | | 85.4 | 10:00 |
| NZ | Real retail sales (q/q%) | Q3 | 0.5 | -2.3 | 10:45 |
| JN | Tokyo CPI (y/y%) | Nov | 3.6 | 3.5 | 12:30 |
| JN | Tokyo CPI ex-fr. food, energy (y/y%) | Nov | 2.3 | 2.2 | 12:30 |
| GE | GfK consumer confidence | Dec | -39.6 | -41.9 | 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 | % Year | | Last | Net Day |
| NZD | 0.6269 | +0.4 | 0.6237 | 0.6289 | CHF | 0.9433 +0.1 | S&P 500 | 4,027 | +0.6 | -14.3 | Oil (Brent) | 85.08 | -0.4 |
| AUD | 0.6766 | +0.5 | 0.6731 | 0.6778 | SEK | 10.402 -0.5 | Dow | 34,194 | +0.3 | -4.5 | Oil (WTI) | 77.84 | -0.1 |
| EUR | 1.0409 | +0.1 | 1.0382 | 1.0440 | NOK | 9.911 -0.3 | Nasdaq | 11,285 | +1.0 | -28.8 | Gold | 1755.3 | +0.6 |
| GBP | 1.2122 | +0.6 | 1.2060 | 1.2154 | HKD | 7.807 -0.1 | Stoxx 50 | 3,962 | +0.4 | -7.3 | HRC steel | 658.0 | -0.8 |
| JPY | 138.41 | -0.9 | 138.06 | 139.22 | CNY | 7.152 -0.1 | FTSE | 7,467 | +0.0 | 2.5 | CRB | 276.9 | -0.8 |
| CAD | 1.3337 | -0.1 | | | SGD | 1.376 -0.1 | DAX | 14,540 | +0.8 | -8.4 | Wheat Chic. | 813.5 | +0.4 |
| NZD/AUD | 0.9265 | -0.1 | | | IDR | 15,665 -0.1 | CAC 40 | 6,707 | +0.4 | -4.8 | Sugar | 19.55 | -1.0 |
| NZD/EUR | 0.6023 | +0.3 | | | THB | 35.74 -0.7 | Nikkei | 28,383 | +1.0 | -3.8 | Cotton | 83.94 | +0.9 |
| NZD/GBP | 0.5172 | -0.2 | | | KRW | 1,328 -1.8 | Shanghai | 3,089 | -0.2 | -13.8 | Coffee | 162.8 | -1.2 |
| NZD/JPY | 86.77 | -0.4 | | | TWD | 30.96 -0.7 | ASX 200 | 7,242 | +0.1 | -2.2 | WM powder | 3355 | -0.7 |
| NZD/CAD | 0.8361 | +0.3 | | | PHP | 56.79 -0.3 | NZX 50 | 11,322 | -0.0 | -11.5 | Australian Futures | | |
| NZ TWI | 72.92 | +0.0 | | | | | | | | | 3 year bond | 96.77 | 0.06 |
| Interest Rates | | | | | | | NZ Government Bonds | | | | 10 year bond | 96.49 | 0.07 |
| Rates | | Swap Yields | | Benchmark 10 Yr Bonds | | | | | | | | NZ Swap Yields | |
| | Cash | 3Mth | 2 Yr | 10 Yr | | Last | Net Day | | Last | | | | Last |
| USD | 4.00 | 4.76 | 4.81 | 3.67 | USD | 3.69 | 0.00 | NZGB 0 1/2 05/15/24 | 4.69 | 0.00 | 1 year | 5.33 | -0.01 |
| AUD | 2.85 | 3.10 | 3.82 | 4.13 | AUD | 3.54 | -0.05 | NZGB 4 1/2 04/15/27 | 4.36 | -0.03 | 2 year | 5.25 | -0.03 |
| NZD | 4.25 | 4.39 | 5.23 | 4.41 | NZD | 4.12 | -0.08 | NZGB 3 04/20/29 | 4.21 | -0.05 | 5 year | 4.63 | -0.06 |
| EUR | 1.50 | 1.90 | 2.84 | 2.57 | GER | 1.85 | -0.08 | NZGB 1 1/2 05/15/31 | 4.16 | -0.07 | 7 year | 4.49 | -0.06 |
| GBP | 3.00 | 3.60 | 4.35 | 3.29 | GBP | 3.04 | 0.03 | NZGB 2 05/15/32 | 4.12 | -0.08 | 10 year | 4.42 | -0.06 |
| JPY | -0.06 | -0.05 | 0.17 | 0.59 | JPY | 0.25 | -0.00 | NZGB 1 3/4 05/15/41 | 4.41 | -0.11 | 15 year | 4.45 | -0.06 |
| CAD | 3.75 | 4.70 | 4.33 | 3.41 | CAD | 2.93 | -0.04 | NZGB 2 3/4 05/15/51 | 4.37 | -0.11 | | | |

* 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 06:59

Source: Bloomberg

NZD exchange rates

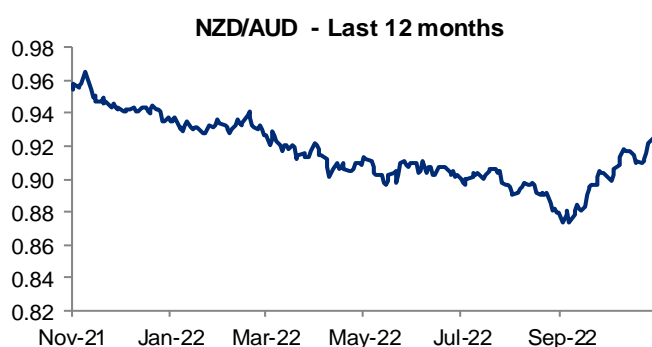
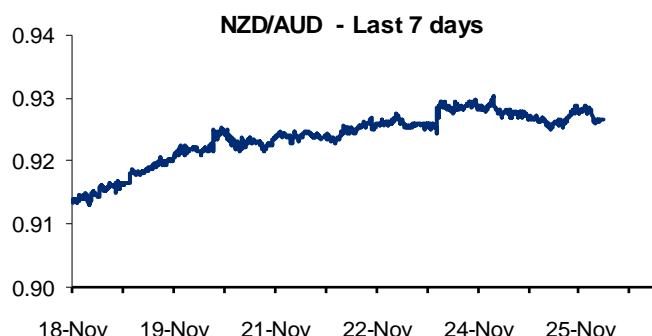
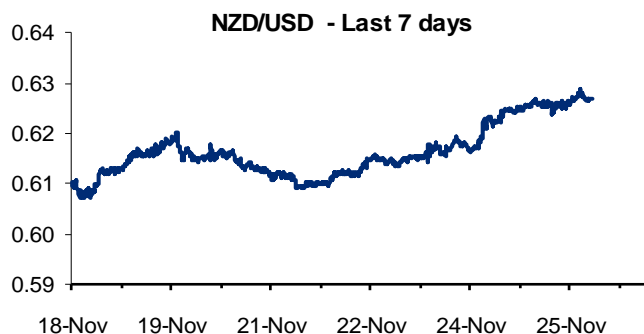
| 25/11/2022 | 6:59 am | Prev. NY close |
|------------|---------|----------------|
| USD | 0.6269 | 0.6243 |
| GBP | 0.5172 | 0.5179 |
| AUD | 0.9265 | 0.9272 |
| EUR | 0.6023 | 0.6005 |
| JPY | 86.77 | 87.15 |
| CAD | 0.8361 | 0.8337 |
| CHF | 0.5914 | 0.5885 |
| DKK | 4.4790 | 4.4656 |
| FJD | 1.3931 | 1.3926 |
| HKD | 4.8943 | 4.8809 |
| INR | 51.17 | 51.10 |
| NOK | 6.2130 | 6.2093 |
| PKR | 139.96 | 139.48 |
| PHP | 35.60 | 35.57 |
| PGK | 2.2074 | 2.1921 |
| SEK | 6.5208 | 6.5281 |
| SGD | 0.8624 | 0.8597 |
| CNY | 4.4836 | 4.4703 |
| THB | 22.42 | 22.63 |
| TOP | 1.4817 | 1.4734 |
| VUV | 75.45 | 75.42 |
| WST | 1.7164 | 1.7194 |
| XPF | 72.65 | 72.41 |
| ZAR | 10.6737 | 10.5930 |

NZD/USD Forward Points

| | BNZ buys NZD | BNZ sells NZD |
|----------|--------------|---------------|
| 1 Month | 1.28 | 1.72 |
| 3 Months | 8.15 | 8.91 |
| 6 Months | 7.06 | 9.25 |
| 9 Months | 3.47 | 6.46 |
| 1 Year | -1.41 | 1.61 |

NZD/AUD Forward points

| | BNZ buys NZD | BNZ Sells NZD |
|----------|--------------|---------------|
| 1 Month | -6.84 | -5.78 |
| 3 Months | -21.65 | -19.82 |
| 6 Months | -56.25 | -51.71 |
| 9 Months | -87.99 | -81.45 |
| 1 Year | -116.12 | -106.31 |



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

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