

28 October 2021



## Events Round-Up

NZ: Trade balance (ann \$b), Sep: 4.1 vs. 2.9 prev.  
 NZ: ANZ activity outlook (net%), Oct: 21.7 vs. 26.2  
 AU: CPI trimmed mean (q/q%), Q3: 0.7 vs. 0.5 exp.  
 AU: CPI trimmed mean (y/y%), Q3: 2.1 vs. 1.8 exp.  
 GE: GfK consumer confidence, Nov: 0.9 vs. -0.5 exp.  
 US: Advance goods trade bal. (\$b), Sep: -96.3 vs. -88.4 exp.  
 US: Durable goods orders (m/m%), Sep: -0.4 vs. -1.1 exp.  
 US: Durables ex transport. (m/m%), Sep: 0.4 vs. 0.4 exp.  
 CA: Bank of Canada policy rate (%), Oct: 0.25 vs. 0.25 exp.

## Good Morning

There has been a notable rally in the global bond market, sparked by a slashing of UK debt supply following the UK Budget and talk of month-end buying, with a hawkish Bank of Canada thrown into the mix. The US curve shows a significant flattening, with higher short rates and the 10-year rate down 8bps. CAD has outperformed, while the USD is broadly weaker, supporting a modest rise in the NZD.

It has been an action-packed 24 hours in rates markets that started in Australia and NZ, before moving onto the UK, European, US and Canadian markets. The Bank of Canada shocked the market, with an immediate end to its QE programme and bringing forward rate hike guidance into the “middle quarters” of next year. The change in view was driven by much higher inflation projections and, with inflation above the top of the target range and expected to stay there for some time, “the upside risks are of greater concern”. The market was already well priced for a series of rate hikes next year, but that didn’t stop a further lift in short-term rates, with the OIS market suggesting a first hike in Canada as early as March and the 2-year rate up 21bps to 1.08%.

The UK Budget showed upgrades to revenue projections on a more positive economic outlook that allowed for more fiscal stimulus, cementing in expectations that the BoE would hike Bank Rate by 15bps next week to bring it up to 0.25%. The revisions to the fiscal projections allowed the DMO to surprisingly cut gilt supply for FY22 to £195b, down by a fifth from the April projection, easing concerns about the impact on the market when the BoE stops QE and halts reinvesting proceeds of maturing bonds. UK

bonds rallied significantly after the announcement, with the 10-year rate falling 13bps to 0.98%.

This rally triggered much lower yields across the Europe and the US as well, with traders also pointing to month-end flows supporting the bond market. Germany’s 10-year rate fell 6bps to minus 0.18%, while the US 10-year rate is currently down 8bps to 1.53%, near its low for the session. There was a significant flattening of the curve, with the US 2-year rate up 5bps to a fresh 19-month high near 0.5%.

Australia became the latest country to report an inflation shock, with the trimmed mean measure up to a 7-year high of 0.7% q/q, putting core inflation near the top of its 2-3% target range when annualised, with plenty more inflation in the pipeline as the economy reopens. It was a wake-up call for the RBA, and those believing the RBA’s guidance, that conditions for a rate hike wouldn’t be in place until 2024. Pre the CPI print, the market was well-priced for a rate hike cycle to begin in the second half of next year, well ahead of RBA guidance, and the CPI print encouraged more rate hike pricing. The RBA didn’t expect core inflation to break above 2% until mid-2023 and its yield curve control policy, designed to keep the April-24 bond near 0.1%, must surely now be abandoned. The Australian 2-year swap rate surged by some 20bps and has made further gains overnight to be up 26bps to 0.91%.

Equities and currency markets have been uneventful by comparison. The S&P500 has been flat, hovering in and out of positive territory. The USD has been broadly weaker, although the BBDXY index is down barely more than 0.1% for the day. CAD has outperformed, following the hawkish BoC update, up 0.5% overnight. The AUD is barely higher, following the CPI shock and ramp up in rates, following the same playbook as the NZD over recent months, where local data and local policy expectations play second-fiddle to global forces. The NZD has pushed up to around 0.7180 and NZD/AUD is back to the pre Aussie CPI level of 0.9540, after a temporary move lower.

EUR and GBP are little changed against the USD over the past 24 hours and overnight, seeing NZD/GBP and NZD/EUR crosses a little higher.

In overnight economic data, US durable goods orders data fell in September, driven by aircraft and autos, but by less than expected and the core orders remained on a robust trend, consistent with a backdrop of strong business investment. The US goods trade deficit widened to a fresh

record high of \$96.3b in September, driven by a fall in 4.7% fall in exports.

There has been some better news on the global energy crisis overnight. Oil prices have fallen over 2%, after Iran and the EU agreed to restart negotiations on a revival of the 2015 nuclear accord, that could pave the way for increased oil supply from Iran. European gas prices are lower after President Putin ordered Gazprom to refill European gas storage facilities from early next month. China is also looking to limit the price miners sell thermal coal as it seeks to ease a power crunch that has resulted in a rationing of electricity supply.

NZ printed a record monthly trade deficit of \$2.1b in September, taking the annual deficit to \$4.1b, a far cry from the \$1.7b surplus a year ago, a textbook widening for an over-stimulated, over-heated economy, with near-record commodity prices only proving to be a secondary offsetting factor that has helped support export values.

The ANZ's business outlook survey for October showed a mild pull-back in activity indicators from the preliminary survey and, interestingly, the indicators are generally stronger for Auckland than the rest of the country, perhaps a sign that locked-down businesses see some light at the end of the tunnel. Inflation expectations surged ahead to 3.45%, not surprising considering the near-5% reading recently printed for the CPI. Costs and pricing indicators remain at extremely high levels.

The domestic rates market was rocked by the Australian inflation shocker, resulting in a significant curve flattening

and higher rates across the board, reaching fresh highs for the cycle. The 2-year swap rate rose 15bps to 2.18% and the 10-year rate was up 10bps to 2.70%, with the same forces evident across the NZGB market. Overnight, the Australian 10-year bond future is down 5bps in yield from the NZ close, which should help the market open with a better tone.

The economic calendar is full for the day ahead. We don't expect to see much new from policy updates from the BoJ and ECB. For the latter, the December meeting is shaping up to be a more crucial one for decisions on QE going forward. US Q3 GDP is expected by the market to show its weakest print in over a year, coming in at an annualised 2.6%.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

		Period	Cons.	Prev.	NZT
GE	Unemployment rate (%)	Oct	5.4	5.5	20:55
JN	BoJ 10-yr yield target (%)	Oct	0	0	
EC	Economic confidence	Oct	116.6	117.8	22:00
EC	ECB deposit facility rate (%)	Oct	-0.5	-0.5	00:45
GE	CPI EU harmonised (y/y%)	Oct	4.5	4.1	01:00
EC	ECB President Lagarde holds press conference				01:30
US	Initial jobless claims (k)	23-Oct	289	290	01:30
US	GDP (ann'lisd q/q%)	Q3	2.6	6.7	01:30
US	Core PCE deflator (ann'lisd q/q%)	Q3	4.4	6.1	01:30
US	Pending home sales (m/m%)	Sep	0.5	8.1	03:00

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	0.7184	+0.3	0.7132	0.7189	CHF	0.9174	-0.3		S&P 500	4,580	+0.1	35.1	Oil (Brent)	84.52	-2.1
AUD	0.7528	+0.4	0.7488	0.7535	SEK	8.560	-0.6		Dow	35,677	-0.2	29.9	Oil (WTI)	82.62	-2.4
EUR	1.1612	+0.1	1.1585	1.1626	NOK	8.394	+0.3		Nasdaq	15,349	+0.8	34.3	Gold	1798.1	+0.0
GBP	1.3754	-0.1	1.3710	1.3781	HKD	7.778	+0.0		Stoxx 50	4,221	-0.1	37.5	HRC steel	1777.0	-0.6
JPY	113.80	-0.3	113.39	114.10	CNY	6.392	+0.1		FTSE	7,253	-0.3	26.6	CRB	241.2	+0.2
CAD	1.2335	-0.4			SGD	1.348	+0.0		DAX	15,706	-0.3	30.2	Wheat Chic.	772.0	+0.9
NZD/AUD	0.9543	-0.1			IDR	14,173	+0.1		CAC 40	6,754	-0.2	42.8	Sugar	19.70	+0.1
NZD/EUR	0.6187	+0.2			THB	33.24	+0.1		Nikkei	29,098	-0.0	24.3	Cotton	110.24	+1.4
NZD/GBP	0.5223	+0.4			KRW	1,170	+0.3		Shanghai	3,562	-1.0	9.0	Coffee	201.4	-3.7
NZD/JPY	81.75	-0.0			TWD	27.80	-0.1		ASX 200	7,449	+0.1	23.0	WM powder	3930.0	-1.1
NZD/CAD	0.8861	-0.1			PHP	50.73	-0.1		NZX 50	13,020	-0.4	6.2	<b>Australian Futures</b>		
NZ TWI	76.05	+0.2											3 year bond	98.785	-0.22
													10 year bond	98.19	0.00

Interest Rates													
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day	Last	Last	Last			
USD	0.25	0.14	0.65	1.55	USD	1.53	-0.08	NZGB 5 1/2 04/15/23	1.51	0.12	1 year	1.55	0.08
AUD	0.10	0.04	0.91	1.96	AUD	1.81	0.01	NZGB 0 1/2 05/15/26	2.23	0.15	2 year	2.18	0.15
NZD	0.50	0.75	2.18	2.69	NZD	2.61	0.09	NZGB 0 1/4 05/15/28	2.39	0.13	5 year	2.59	0.16
EUR	0.00	0.06	-0.31	0.20	GER	-0.18	-0.06	NZGB 1 1/2 05/15/31	2.54	0.10	7 year	2.64	0.13
GBP	0.10	0.20	1.13	1.15	GBP	0.99	-0.12	NZGB 2 05/15/32	2.61	0.09	10 year	2.70	0.10
JPY	-0.05	-0.09	0.02	0.15	JPY	0.10	-0.01	NZGB 1 3/4 05/15/41	2.91	0.07	15 year	2.83	0.09
CAD	0.25	0.46	1.51	2.05	CAD	1.59	-0.04	NZGB 2 3/4 05/15/51	3.03	0.06			

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

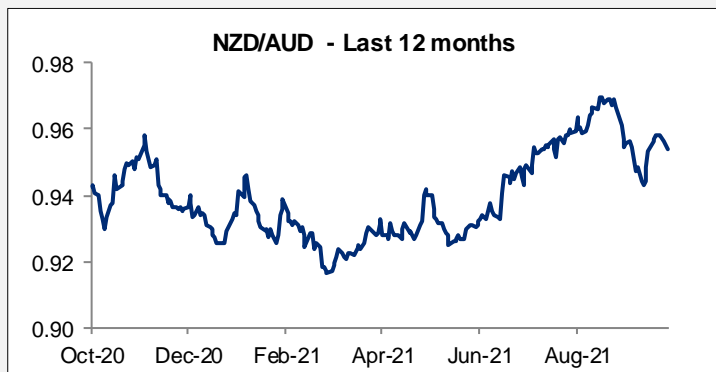
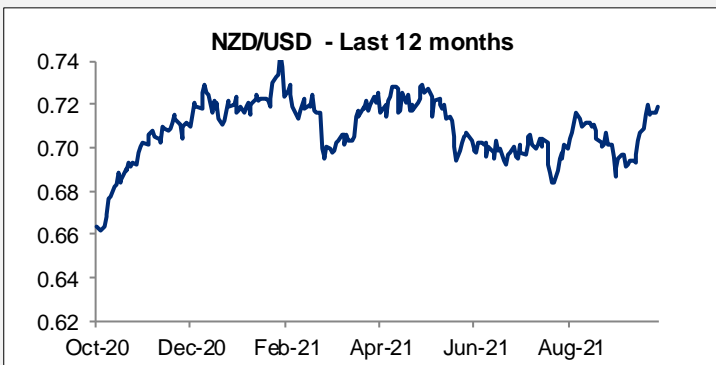
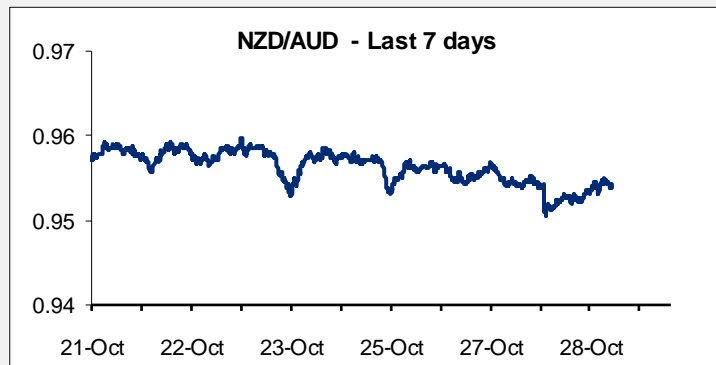
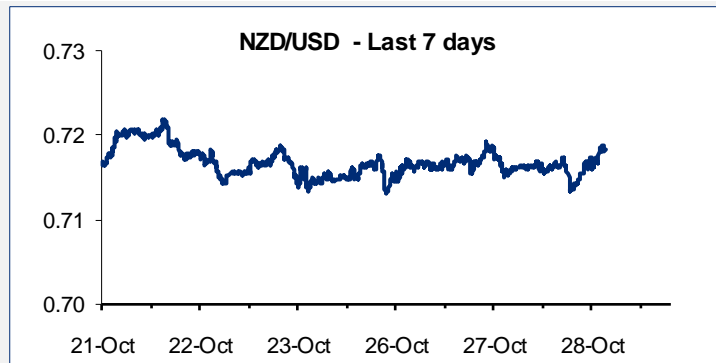
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:53

Source: Bloomberg

**NZD exchange rates**

28/10/2021 6:54 am		Prev. NY close
USD	0.7184	0.7163
GBP	0.5223	0.5203
AUD	0.9543	0.9549
EUR	0.6187	0.6177
JPY	81.75	81.77
CAD	0.8861	0.8875
CHF	0.6591	0.6591
DKK	4.6022	4.5952
FJD	1.4874	1.4836
HKD	5.5875	5.5697
INR	53.90	53.69
NOK	6.0301	5.9923
PKR	124.46	125.50
PHP	36.45	36.37
PGK	2.5296	2.5204
SEK	6.1498	6.1706
SGD	0.9683	0.9654
CNY	4.5923	4.5724
THB	23.97	23.72
TOP	1.5911	1.5900
VUV	78.78	78.72
WST	1.8140	1.8285
XPF	73.82	73.59
ZAR	10.7879	10.6367



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-3.04	-2.78
3 Months	-10.88	-10.35
6 Months	-28.49	-27.48
9 Months	-54.61	-53.00
1 Year	-87.60	-85.60

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.14	-4.54
3 Months	-18.24	-17.16
6 Months	-40.69	-38.41
9 Months	-69.86	-66.41
1 Year	-102.29	-97.60

## 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

### National Australia Bank

**Ivan Colhoun**  
Global Head of Research  
+61 2 9237 1836

**Alan Oster**  
Group Chief Economist  
+61 3 8634 2927

**Ray Attrill**  
Head of FX Strategy  
+61 2 9237 1848

**Skye Masters**  
Head of Fixed Income Research  
+61 2 9295 1196

#### Wellington

Foreign Exchange +800 642 222  
Fixed Income/Derivatives +800 283 269

#### New York

Foreign Exchange +1 212 916 9631  
Fixed Income/Derivatives +1 212 916 9677

#### Sydney

Foreign Exchange +61 2 9295 1100  
Fixed Income/Derivatives +61 2 9295 1166

#### Hong Kong

Foreign Exchange +85 2 2526 5891  
Fixed Income/Derivatives +85 2 2526 5891

#### London

Foreign Exchange +44 20 7796 3091  
Fixed Income/Derivatives +44 20 7796 4761

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