

28 September 2021



## Events Round-Up

US: Durable goods orders (m/m%), Aug: 1.8 vs. 0.7 exp.

US: Durables ex trans. (m/m%), Aug: 0.2 vs. 0.5 exp.

## Good Morning

After last week's more hawkish tilt by some key G10 central banks, the global reflation trade looks to be re-emerging as a theme. US equities show a rotation back into cyclicals, global rates continue to push higher, commodity prices are on the charge, and commodity currencies have outperformed, although the NZD has been flat and lagged the modest gains for AUD and CAD.

There is a whiff of the global reflation trade returning. There have been no obvious triggers, but the hawkish tilt from the Fed, BoE and Norges bank last week shows more confidence in the outlook, while the spread of the delta wave continues to taper off. The return of the reflation trade is welcome news for someone who has been projecting a higher NZD/USD into year-end, only to sit back and watch it consistently trade sideways. That sideways shuffle continued for the NZD as the new week begins, but at least other assets are moving in the right direction consistent with the reflation thematic.

Of note, the US 10-year rate broke up through the 1.5% mark for the first time since June, the sell-off of Treasuries continuing since the Fed's most recent hawkish tilt last week. It traded as high as 1.51%, but has since fallen back to 1.47%, still up 2bps for the day. European rates are also slightly higher.

Higher rates have seen the IT sector and Big Tech underperform, acting as a drag on the Nasdaq index and pulling the S&P500 down 0.2% as we go to print. Cyclical sectors have outperformed, with Energy, Materials, Industrials and Consumer Discretionary sectors all higher, while the Financials sector, which benefits from a steeper curve, is up 1.4%. One index on our radar, the Solactive Airlines, Hotels and Cruise Lines index, is up over 2% and over 8% over the past four trading sessions. This is seen as a good proxy for the "re-opening trade" and the index has been closely correlated with risk currency pairs like NZD/JPY and AUD/JPY this year.

Currency moves since the end of last week have been modest, but AUD and CAD head the leaderboard, up 0.3% and 0.2% respectively, the former trying to make a bid to

regain the 0.73 handle. The NZD has been flat just over the 0.70 mark, a slightly disappointing showing, with small gains against EUR and JPY a consolation prize. Commodity prices have been on the charge, with Bloomberg's index showing widespread gains to be up a chunky 1.6%. Oil prices are up close to 2%, with Brent Crude approaching the USD80 mark, a level not seen since 2018.

The Evergrande saga, which we commented on extensively last week, remains an overhanging risk factor for commodity currencies and will remain so until we get clarity on any government involvement to support the array of retail investors, suppliers and employees who are donkey-deep in their exposure to the failing company. All we can glean so far is that Government entities have taken over control of some local subsidiaries, holding funds in escrow accounts and increasing oversight of day-to-day business to help protect some of the homeowners who have exposure to property developments.

GBP has outperformed, up 0.2% to break back over 1.37, enjoying the afterglow from the BoE's hawkish tilt last week. Governor Bailey has given a speech, reiterating his preference for Bank Rate, not messing with the asset purchase programme, in any tightening of policy. However, other headlines don't sound particularly hawkish such as "tightening policy could hurt a weakening recovery" and "monetary policy should not respond to supply shocks".

In US Fed news, Boston Fed President Rosengren will be retiring at the end of the month, exiting after the cloud over his trading activities. He is a known hawk and was likely one of the "dots" indicating the 2022 hike. The Boston President is scheduled to be rotated on as a voter in 2022 and if he is replaced by another hawk then that voting dot would remain. It is yet to be determined if his colleague Dallas Fed President Kaplan, another hawk and embroiled under the same cloud, will head for the exit as well.

NY Fed President Williams was speaking overnight and his comments looked to toe the party line, indicating that tapering QE may soon be warranted and that there is still a long way to go before reaching maximum sustainable employment, the condition for lift-off on rate hikes. Governor Brainard noted the uncertainty about the outlook. She said the impact of delta had been more disruptive than expected and could raise upside risks to inflation as supply constraints last longer, but overall she expected inflation to return to pre-virus dynamics. Chicago

Fed President showed off his dovish credentials, worrying more that inflation might be too low in 2023 and 2024 than the possibility that inflation will be too high. In Q&A he told reporter he expected on one rate hike in 2023, followed by a very gentle incline.

German assets have seen no impact from the indeterminate election results which will see months of negotiations ahead, after Merkel's CDU party lost a decent share of the vote, slumping to only 24.1%, but its main Opposition SPD party wasn't particularly well supported either, at 25.7%. Either main party would require both the Greens and FDP to be able to form a coalition. Even though a three-way coalition isn't the ideal sort of government, the market was relieved that the result ruled out a "hard-left" coalition and major policy shifts are unlikely to occur.

The economic calendar has been light. US durable goods orders were much stronger than expected at the headline level, owing to orders from airlines, and upward revisions offset the softer core measures. The data pointed towards strong business investment continuing.

The domestic rates market was dead yesterday, with little trading activity or movement in yields. Global forces should see some upward pressure on the open with the Australian 10-year bond future up about 3bps in yield since the NZ close.

In the day ahead, the ECB's central banking forum opens tonight. US trade and consumer confidence data are the key economic releases.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	Retail sales (m/m%)	Aug	-2.5	-2.7	14:30
GE	GfK consumer confidence	Oct	-1.6	-1.2	19:00
EC	Lagarde opens ECB Forum on central banking				01:00
US	Advance goods trade bal (\$b)	Aug	-87.3	-86.4	01:30
US	Conf. Board consumer confidence	Sep	115.0	113.8	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	0.7017	+0.0	0.6991	0.7024	CHF	0.9252	+0.0		S&P 500	4,448	-0.2	34.8	Oil (Brent)	79.59	+1.9
AUD	0.7288	+0.4	0.7250	0.7291	SEK	8.690	+0.5		Dow	34,946	+0.4	28.6	Oil (WTI)	75.59	+2.2
EUR	1.1707	-0.1	1.1685	1.1715	NOK	8.600	+0.2		Nasdaq	14,979	-0.5	37.3	Gold	1750.6	+0.1
GBP	1.3706	+0.2	1.3661	1.3729	HKD	7.783	-0.0		Stoxx 50	4,165	+0.2	32.8	HRC steel	1935.0	+0.1
JPY	110.98	+0.2	110.62	111.06	CNY	6.457	-0.1		FTSE	7,063	+0.2	20.9	CRB	225.3	+0.6
CAD	1.2621	-0.2			SGD	1.353	-0.0		DAX	15,574	+0.3	24.9	Wheat Chic.	734.8	+0.0
NZD/AUD	0.9628	-0.4			IDR	14,253	-0.0		CAC 40	6,651	-0.0	40.6	Sugar	18.73	-1.9
NZD/EUR	0.5994	+0.2			THB	33.58	+0.4		Nikkei	30,240	-0.0	28.6	Cotton	96.85	+3.8
NZD/GBP	0.5120	-0.2			KRW	1,177	-0.0		Shanghai	3,583	-0.8	11.4	Coffee	193.7	+0.3
NZD/JPY	77.87	+0.3			TWD	27.72	+0.0		ASX 200	7,384	+0.6	24.1	WM powder	3770.0	+0.0
NZD/CAD	0.8856	-0.2			PHP	51.00	+0.7		NZX 50	13,228	-0.2	12.1	<b>Australian Futures</b>		
NZ TWI	74.84	-0.0											3 year bond	99.56	0.00
													10 year bond	98.55	-0.04

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	0.13	0.39	1.50	USD	1.47	0.02	NZGB 5 1/2 04/15/23	1.01	0.00	1 year	1.11	0.00
AUD	0.10	0.02	0.27	1.59	AUD	1.41	0.01	NZGB 0 1/2 05/15/26	1.54	0.00	2 year	1.46	0.00
NZD	0.25	0.63	1.46	2.20	NZD	1.93	0.00	NZGB 0 1/4 05/15/28	1.75	0.01	5 year	1.86	0.01
EUR	0.00	0.06	-0.43	0.15	GER	-0.22	0.01	NZGB 1 1/2 05/15/31	1.93	0.00	7 year	2.02	0.01
GBP	0.10	0.09	0.67	1.13	GBP	0.95	0.03	NZGB 2 05/15/32	2.00	0.00	10 year	2.21	0.01
JPY	-0.04	-0.07	0.01	0.11	JPY	0.06	0.00	NZGB 1 3/4 05/15/41	2.51	0.00	15 year	2.37	0.01
CAD	0.25	0.45	0.95	1.89	CAD	1.40	0.02	NZGB 2 3/4 05/15/51	2.71	-0.00			

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

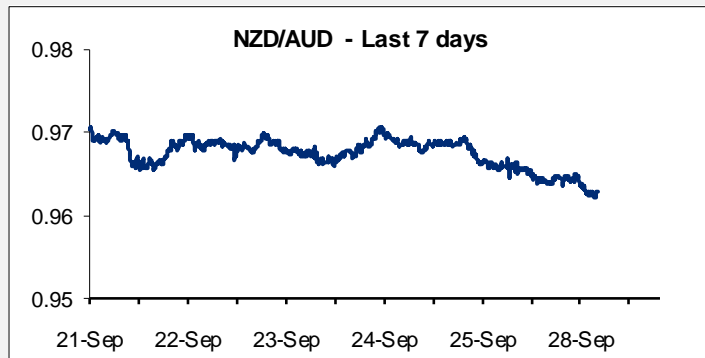
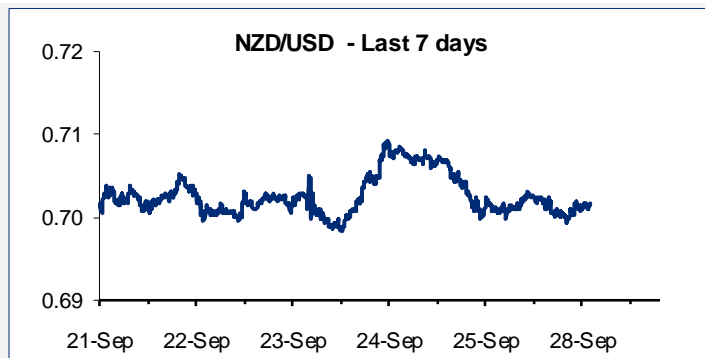
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:04

Source: Bloomberg

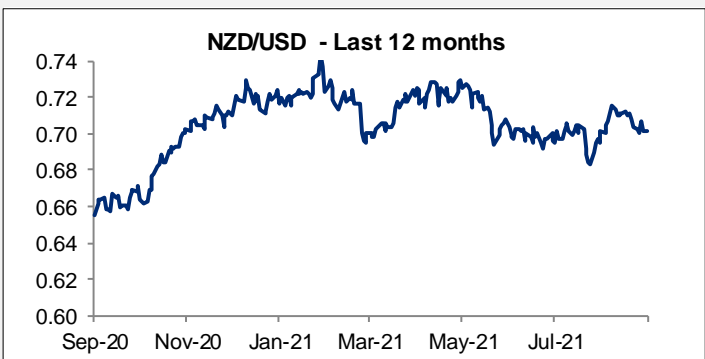
**NZD exchange rates**

28/09/2021 7:04 am		Prev. NY close
USD	0.7017	0.7015
GBP	0.5120	0.5128
AUD	0.9628	0.9660
EUR	0.5994	0.5985
JPY	77.87	77.68
CAD	0.8856	0.8875
CHF	0.6492	0.6487
DKK	4.4570	4.4516
FJD	1.4735	1.4660
HKD	5.4611	5.4615
INR	51.82	51.69
NOK	6.0347	6.0228
PKR	118.90	118.61
PHP	35.78	35.52
PGK	2.4621	2.4614
SEK	6.0978	6.0678
SGD	0.9495	0.9496
CNY	4.5309	4.5360
THB	23.51	23.32
TOP	1.5680	1.5648
VUV	78.09	77.87
WST	1.8026	1.8024
XPF	71.51	71.25
ZAR	10.4750	10.4898



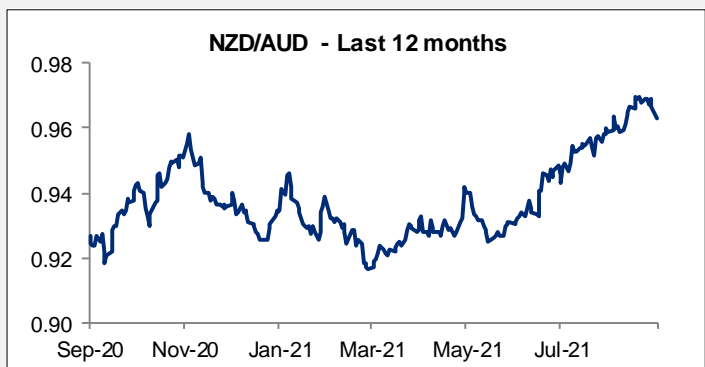
**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.38	-1.01
3 Months	-6.57	-6.09
6 Months	-17.75	-16.75
9 Months	-36.16	-34.25
1 Year	-57.93	-55.93



**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.35	-2.65
3 Months	-12.92	-12.00
6 Months	-32.82	-30.79
9 Months	-60.16	-56.22
1 Year	-91.39	-86.69



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