Markets Today

29 September 2021

Events Round-Up

AU: Retail sales (m/m%), Aug: -1.7 vs. -2.5 exp.

GE: GfK consumer confidence, Oct: 0.3 vs. -1.5 exp.

US: Advance goods trade bal ($b), Aug: -87.6 vs. -87.3 exp.

US: Conf. Board cons. confid., Sep: 109.3 vs. 115.0 exp.

Good Morning

The number and extent of global growth potholes are growing and there's a whiff of stagflation concerns in the air, with global equity markets tumbling amidst a further incremental lift in global bond yields. Currency traders have flocked to safe-havens, seeing a broadly-based rise in the USD and the NZD and AUD tumbling 1% overnight, although GBP has seen the biggest fall, down 1.4%.

Global rates have risen every day since the Fed's hawkish tilt last week in which the decision to taper asset purchases was pencilled in for November and the dotplot of FOMC members' Fed Funds expectations showed an increased chance that rate hikes could follow by late-2022. A day later the Bank of England also raised the chance that rate hikes could come sooner than the market had priced in. The realisation that the endgame for excessive global monetary policy stimulus is beginning to sink in.

When Asia opened yesterday, the US 2-year Treasury rate printed above 0.30% for the first time since the pandemic took hold. The 10-year rate pushed higher through the day and peaked at 1.565% overnight, its highest level since June, now back down to 1.53%, still up some 4bps for the day. The UK 10-year rate blasted up through the 1% mark and was up 11bps to as high as 1.06%, before settling back down below 1%.

As well as considering the monetary policy outlook, the rates market has been attune to the backdrop of surging energy prices, not unrelated to the fact that global monetary policy has been far too easy but also a reflection of the supply shock-affected global economy. Brent crude blasted up through USD80 during Asia trading to a high of USD80.75, before falling back to USD79, now showing a small fall for the day. Surging natural gas prices across Europe remain a concern, with UK gas futures rising to a fresh high and up over 50% for the month to date. We're not in a 1970s energy crisis yet, but it is beginning to feel like it by the day.

As well as the worry about how high energy prices might go and their economic impact, the market's list of worry factors continues to seemingly expand. We can add to the list uncertainty about the make-up of the US Fed and its chair, the US debt ceiling debacle, and extensive power cuts across China.

After we reported the resignation of Fed President Rosengren yesterday, President Kaplan soon followed, both under a cloud of suspicion with their trading activities while sitting on the FOMC. Chair Powell has faced the Senate overnight and Senator Warren said she wouldn't support him for a second term as chair, seeing him as a "dangerous man to head up the Fed", given his record on financial regulation. That said, he is still odds-on to win a vote for a second term, with some bipartisan Senate support.

The clock is ticking for Democrats on keeping the US government funded past the end of the month. Senate Republicans blocked a bill that would simultaneously suspend the debt ceiling through to December next year and keep the government funded. Republicans won't accept the lift in the debt ceiling in protest against Biden's multi-trillion dollar spending plans. Further politicking over this issue and can be expected this week, with market reaction to date limited to the extent that we've been down this road many times before with last-minute resolutions ultimately saving the day.

After the market's focus on troubled Chinese property developer Evergrande last week, the attention has remained on China this week after the reporting of widespread power outages. Bloomberg notes that these have captured at least 17 Chinese provinces and regions making up two-thirds of the country's GDP. The cause is said to be record high coal prices causing power generators to trim output despite soaring demand, while some areas have pro-actively halted electricity flows to meet emissions and energy intensity goals.

This represents yet another pothole in the global recovery story, alongside surging oil and natural gas prices, port congestion around the world, and the general breakdown in global supply chains.

Adding to the sombre market backdrop, the Conference Board measure of US consumer confidence unexpectedly fell for the third successive month, down to a 7-month low of 109.3, blamed on the spread of the delta variant. If that is truly the case, then the 30% fall in new case numbers from their peak should see a reversal over coming months. However, we suspect that CPI inflation of over 5% has also been a factor, seeing a fall in spending power, not gone unnoticed by consumers.

The combo of higher inflationary concerns and the growth potholes has seen a sharp fall in risk appetite, albeit without the usual rally in global bond markets. Yesterday we talked about the return of the global reflation trade but a fairer description for the moves overnight is the stagflation trade. US equities have fallen through much of the session and the S&P500 is currently down about 2%, following a 2.2% fall in the Euro Stoxx 600 index.

The USD's safe-haven credentials have resulted in broadly based gains, with the BBDXY index up 0.6%. The gain has been held back by the fact that EUR has managed to hold up better than others, only down slightly to 1.1680, with the market ignoring ECB President Lagarde's particularly dovish tone as she opened the central bank's annual forum. She said that there are "no signs that this increase in inflation is becoming broad-based across the economy…the key challenge is to ensure that we do not overreact to transitory supply shocks that have no bearing on the medium term".

EUR might have been a beneficiary of cross-currency flows out of GBP, which has seen significant selling pressure as the market weighs up whether the BoE might be on the verge of a policy mistake, looking to tighten policy in the face of significant supply-side shocks and higher taxes, which will crimp growth. GBP has fallen 1.4% overnight to 1.3530, doing worse than the commodity currencies during this risk-off episode.

Both the NZD and AUD have fallen about 1% overnight to 0.6950 and 0.7235 respectively, with lower risk appetite the prevailing force and the market ignoring the fact that both countries are enjoying strong terms of trade gains amidst the widespread lift in commodity prices. NZD crosses are all lower, apart from a lift in NZD/GBP to 0.5140.

Yesterday, the domestic rates market hung in pretty well against the global force of rising rates with still-evident strong demand for NZ's high yielding bonds. The 10-year NZGB rate rose by 3bps to 1.96% while the newly issued 30-year bond rose by just 1bp to 2.72%. In the swaps market there was some curve steepening, with the short-end underpinned against a 3bp lift in the 10-year rate.

In the day ahead, during NZ trading hours the Fed's Bostic and Bullard will be on the wires with their monetary policy views. Tonight, Central Bank heads Bailey, Kuroda, Lagarde and Powell are on a panel at the ECB forum, adding the voluminous output of central bank speakers so far this week.

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Coming Up

		Period	Cons.	Prev.	NZT
US	Fed's Bostic discusses economic outlook				08:00
US	Fed's Bullard discusses economy and monetary policy				12:00
EC	Economic confidence	Sep	116.9	117.5	22:00
US	Pending home sales (m/m%)	Aug	1.0	-1.8	03:00
EC	Bailey, Kuroda, Lagarde, Powell on ECB forum panel				04:45

Source: Bloomberg, BNZ

Foreign Exchange

Indicative overnight ranges (*)

	Last	% Day	Low	High
NZD	0.6949	-1.0	0.6946	0.6995
AUD	0.7234	-0.7	0.7228	0.7278
EUR	1.1681	-0.1	1.1668	1.1701
GBP	1.3529	-1.2	1.3523	1.3694
JPY	111.52	+0.5	111.17	111.64
CAD	1.2688	+0.5		
NZD/AUD	0.9606	-0.2		
NZD/EUR	0.5949	-0.8		
NZD/GBP	0.5136	+0.3		
NZD/JPY	77.50	-0.5		
NZD/CAD	0.8817	-0.5		
NZ TWI	74.37	-0.7		

Other FX

	Last	% Day
CHF	0.9297	+0.4
SEK	8.736	+0.3
NOK	8.670	+0.8
HKD	7.784	+0.0
CNY	6.460	+0.0
SGD	1.358	+0.3
IDR	14,273	+0.1
THB	33.88	+0.9
KRW	1,185	+0.7
TWD	27.74	+0.1
PHP	51.00	+0.0

Equities

Major Indices

	Last	% Day	% Year
S&P 500	4,358	-1.9	30.0
Dow	34,295	-1.7	24.3
Nasdaq	14,568	-2.7	31.0
Stoxx 50	4,059	-2.6	25.9
FTSE	7,028	-0.5	18.6
DAX	15,249	-2.1	18.5
CAC 40	6,507	-2.2	34.3
Nikkei	30,184	-0.2	28.2
Shanghai	3,602	+0.5	11.7
ASX 200	7,276	-1.5	22.2
NZX 50	13,174	-0.4	12.2

Commodities**

Price

	Last	Net Day
Oil (Brent)	79.07	-0.6
Oil (WTI)	75.19	-0.3
Gold	1734.2	-0.9
HRC steel	1926.0	-0.5
CRB	228.2	+1.3
Wheat Chic.	722.0	-1.6
Sugar	18.98	+1.5
Cotton	98.91	+2.1
Coffee	198.6	+2.4
WM powder	3770.0	+0.0

Australian Futures

3 year bond	99.535	-0.01
10 year bond	98.51	-0.02

Interest Rates

	Rates		Swap Yields	
	Cash	3Mth	2 Yr	10 Yr
USD	0.25	0.13	0.39	1.55
AUD	0.10	0.02	0.27	1.62
NZD	0.25	0.64	1.45	2.25
EUR	0.00	0.06	-0.42	0.17
GBP	0.10	0.09	0.70	1.17
JPY	-0.04	-0.07	0.01	0.13
CAD	0.25	0.45	0.95	1.94

Benchmark 10 Yr Bonds

	Last	Net Day
USD	1.52	0.04
AUD	1.48	0.07
NZD	1.96	0.02
GER	-0.20	0.02
GBP	0.99	0.04
JPY	0.09	0.02
CAD	1.49	0.08

NZ Government Bonds

	Last	
NZGB 5 1/2 04/15/23	1.01	0.00
NZGB 0 1/2 05/15/26	1.56	0.02
NZGB 0 1/4 05/15/28	1.77	0.02
NZGB 1 1/2 05/15/31	1.96	0.03
NZGB 2 05/15/32	2.04	0.04
NZGB 1 3/4 05/15/41	2.53	0.03
NZGB 2 3/4 05/15/51	2.72	0.01

NZ Swap Yields

	Last	
1 year	1.11	-0.00
2 year	1.45	-0.01
5 year	1.88	0.01
7 year	2.04	0.02
10 year	2.24	0.03
15 year	2.41	0.04

* 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 07:02

Source: Bloomberg

NZD exchange rates

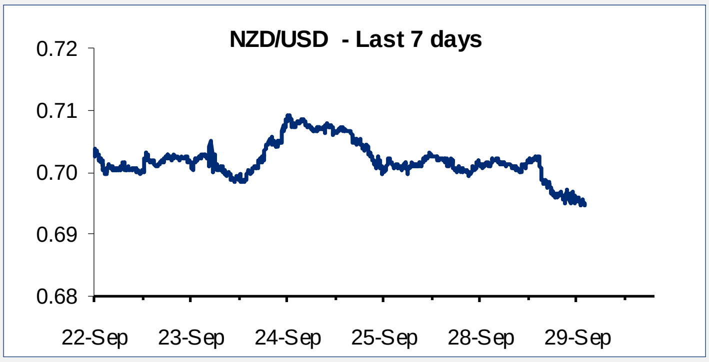
29/09/2021	7:02 am	Prev. NY close
USD	0.6949	0.7017
GBP	0.5136	0.5123
AUD	0.9606	0.9631
EUR	0.5949	0.6000
JPY	77.50	77.89
CAD	0.8817	0.8861
CHF	0.6460	0.6496
DKK	4.4238	4.4614
FJD	1.4562	1.4708
HKD	5.4090	5.4616
INR	51.46	51.82
NOK	6.0251	6.0376
PKR	117.94	118.90
PHP	35.44	35.78
PGK	2.4382	2.4621
SEK	6.0708	6.1095
SGD	0.9435	0.9497
CNY	4.4893	4.5309
THB	23.46	23.51
TOP	1.5539	1.5694
VUV	77.28	78.09
WST	1.7853	1.8078
XPF	70.64	71.54
ZAR	10.5232	10.5008

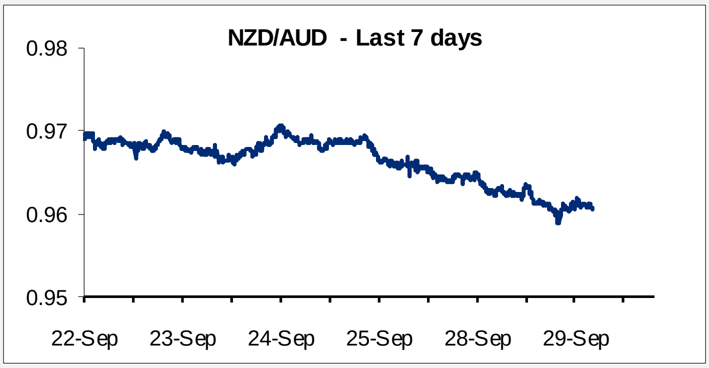
NZD/USD Forward Points

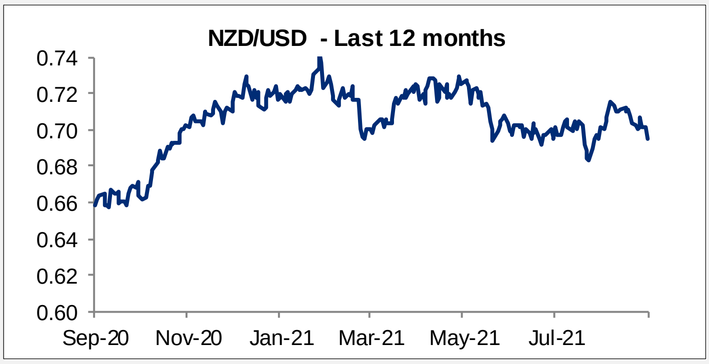
	BNZ buys NZD	BNZ sells NZD
1 Month	-1.43	-1.08
3 Months	-6.54	-6.02
6 Months	-17.65	-16.65
9 Months	-35.73	-33.84
1 Year	-56.60	-54.60

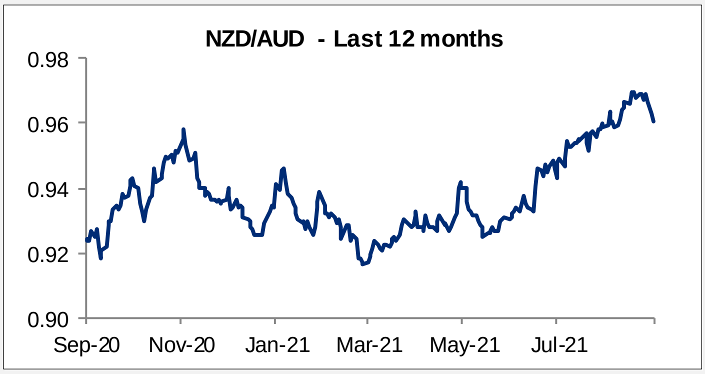
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.39	-2.65
3 Months	-12.97	-11.78
6 Months	-32.81	-30.74
9 Months	-59.82	-55.87
1 Year	-90.36	-85.30









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