

30 November 2021



Events Round-Up

EC: Economic confidence, Nov: 117.5 vs. 117.5 exp.

GE: CPI (EU harmonised, y/y%), Nov: 6.0 vs. 5.5 exp.

US: Pending home sales (m/m%), Oct: 7.5 vs. 1.0 exp.

Good Morning

Some of Friday's "risk-off" price action has reversed, as investors show less fear about the new COVID19 variant Omicron. The S&P500 is currently up 1.6% while the US 10-year rate is up 6bps. The USD has been well supported, seeing the NZD continue to struggle, going sub-0.68 to a fresh low for the year, underperforming other commodity currencies, with the AUD relatively flat.

The fear that enveloped markets late last week on reports of a new mutant strain of COVID19 spreading across the world has subsided a little. But Omicron will remain in the spotlight for several weeks, as investors take bets on how much damage it will do to the world economy. Market volatility will remain higher than usual until we get more clarity on this strain of the virus.

The WHO said that it is too early to say how transmissible and severe the new strain is, even as the South African doctor at the centre of the outbreak suggests that patients she has treated – admittedly a younger cohort – have only shown mild symptoms. Indeed, that seems to be the opinion of the experts, that the overall number of patients so far remains too small and their infections too recent to draw firm conclusions about Omicron, and more clarity will take weeks rather than days.

There has been an unconvincing recovery in European and US equity markets. The Euro Stoxx 600 index recovered 0.7%, after Friday's 3.7% pummeling while the S&P500 is currently up 1.6%, after falling 2.3% on Friday. The Russell 2000 index of small US cap stocks and the Solactive Airlines, Hotels and Cruise Line Index are currently up "only" 0.7%, after their meaty falls on Friday – investors are clearly still taking a fairly cautious and selective approach to dipping back into risk assets.

The shift out of the safe-haven of US Treasuries has also been moderate, with the 10-year rate currently up 6bps for the day to 1.53% (earlier hitting a high of 1.56%), after Friday's 16bps plunge. Fed Fund futures are relatively flat overnight, so the cloud of uncertainty overhanging

Omicron's impact on the economy remains a key consideration in expectations of how aggressive the Fed might be next year in removing policy stimulus.

Continuing the recent trend of US economic data beating expectations, pending home sales shot up 7.5% in October to a 10-month high, with the National Association of Realtor's Chief Economist saying that existing home sales are on track to exceed 6 million this year, which would be the strongest in 15 years.

Continuing the trend of positive global inflation surprises, Germany's CPI surged 6.0% y/y in November, well above the 5.5% expected, taking inflation to about a three-decade high, as seen in the US and in many other places. Annual inflation for Spain and Belgium both came in at 5.6% y/y and the euro area figure is due tonight, with a market expectation of 4.5% y/y. ECB members Lagarde, Schnabel, de Cos, and Villeroy de Galhau were all on the wires, providing a similar message – that the surge in inflation was driven by unusual temporary factors, the November figure would prove to be the peak, and with inflation is expected to gradually fall back to 2% next year monetary policy could be patient.

The European Commission's surveyed economic confidence index for the euro area slipped to 117.5 in November, as expected, not helped by the Delta wave and fresh lockdowns in the region.

Oil prices are up in the order of 3-4% after their 12-13% fall on Friday. Brent crude is trading around USD75 while WTI crude is at USD71.

The rise in oil prices has supported CAD and the AUD, while the NZD has been left behind these commodity currencies. For the AUD, the August low of 0.7106 has held, with the currency getting down to 0.7114 overnight and currently flat since Friday's at 0.7130.

For the NZD, the prior low for the year of 0.6805 printed in August and repeated on Friday night broke, with the currency trading down 0.6788 and it currently sits near 0.68. In our early-October NZD downgrade, we alluded to the 0.67 level as being potentially the bottom of the range. Our projections did not incorporate a more vicious COVID19 strain, so if Omicron turns out to be deadlier and more vaccine-resistant, then that argues for a weaker global growth backdrop and additional NZD downside potential, possibly bringing 0.65 into the picture. That

extra downside could be avoided if the fear of Omicron quickly passes following more information on the strain. In the meantime, the 0.68 level might continue to be seen as key technical support.

Stronger Germany inflation figures didn't provide any support to the euro and it continues to languish. Alongside the NZD the EUR has been one of the weakest majors for the day, down 0.4% to 1.1270. The most lift in risk appetite has also seen JPY lose some gloss, with USD/JPY up 0.3% to 113.75.

Domestic rates fell on the open, reacting to Friday night's large moves for Treasuries, but the move was pared back as Treasury yields rose during Asian trading. Rates were little changed on the day, with the 10-year NZGB down 1bp to 2.44% and 10-year swap unchanged at 2.73%. The 2-year swap rate fell to 2.10% early on, before rising to close the day unchanged at 2.15%.

The economic calendar in the day ahead is heavy. Locally, the final reading of the ANZ business outlook survey will remain contaminated by Auckland's lockdown, so will be of only passing interest. The key global releases include China PMI, euro area CPI, Canada GDP and US consumer

confidence data. Fed Chair Powell's comments in front of a Senate Panel will be closely scrutinised as he gets grilled on the surge in inflation and what he might do about it.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	Industrial production (m/m%)	Oct	1.9	-5.4	12:50
NZ	ANZ activity outlook (net%)	Nov		15.6	13:00
AU	Current account bal. (\$b)	Q3	30	20	13:30
AU	Building approvals (m/m%)	Oct	-1.5	-4.3	13:30
CH	Non-manufacturing PMI	Nov	51.4	52.4	14:00
CH	Manufacturing PMI	Nov	49.7	49.2	14:00
GE	Unemployment rate (%)	Nov	5.4	5.4	21:55
EC	CPI core (y/y%)	Nov	2.3	2	23:00
EC	CPI (y/y%)	Nov	4.5	4.1	23:00
CA	GDP (Annlsed q/q%)	Q3	3.3	-1.1	02:30
US	Chicago PMI	Nov	67.0	68.4	03:45
US	Powell, Yellen testify before Senate panel				04:00
US	Conf. Board consumer confid.	Nov	110.7	113.8	04:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6805	-0.2	0.6788	0.6839	CHF	0.9244	+0.1	S&P 500	4,670	+1.6	28.4	Oil (Brent)	75.18	+3.4
AUD	0.7131	+0.1	0.7114	0.7160	SEK	9.083	-0.9	Dow	35,241	+1.0	17.8	Oil (WTI)	71.20	+4.5
EUR	1.1271	-0.4	1.1258	1.1295	NOK	9.039	-0.4	Nasdaq	15,825	+2.1	29.6	Gold	1782.8	-0.2
GBP	1.3304	-0.2	1.3288	1.3363	HKD	7.800	+0.0	Stoxx 50	4,110	+0.5	16.5	HRC steel	1606.0	+0.1
JPY	113.74	+0.3	112.99	113.96	CNY	6.388	-0.1	FTSE	7,110	+0.9	11.7	CRB	226.7	-4.9
CAD	1.2772	-0.2			SGD	1.370	-0.1	DAX	15,281	+0.2	14.6	Wheat Chic.	824.5	-1.9
NZD/AUD	0.9543	-0.4			IDR	14,319	-0.3	CAC 40	6,776	+0.1	21.0	Sugar	19.19	-0.8
NZD/EUR	0.6038	+0.2			THB	33.72	+0.2	Nikkei	28,284	-1.6	7.0	Cotton	116.50	-0.1
NZD/GBP	0.5115	+0.0			KRW	1,193	-0.1	Shanghai	3,563	-0.0	5.0	Coffee	233.8	-3.8
NZD/JPY	77.40	+0.1			TWD	27.79	-0.2	ASX 200	7,240	-0.5	11.1	WM powder	4225.0	+0.0
NZD/CAD	0.8691	-0.4			PHP	50.38	-0.1	NZX 50	12,532	-0.8	-1.9	Australian Futures		
NZ TWI	73.32	-0.2										3 year bond	98.895	-0.09
												10 year bond	98.25	-0.07

Interest Rates							
	Rates		Swap Yields		Benchmark 10 Yr Bonds		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	
USD	0.25	0.18	0.77	1.58	USD	1.53	0.05
AUD	0.10	0.05	0.93	2.06	AUD	1.74	0.00
NZD	0.75	0.80	2.15	2.72	NZD	2.52	-0.01
EUR	0.00	0.06	-0.37	0.17	GER	-0.32	0.02
GBP	0.10	0.10	1.05	1.13	GBP	0.86	0.04
JPY	-0.06	-0.08	0.00	0.11	JPY	0.08	0.00
CAD	0.25	0.49	1.50	2.08	CAD	1.64	0.04

NZ Government Bonds				NZ Swap Yields		
	Last			Last	Last	
NZGB 5 1/2 04/15/23	1.43	-0.02	1 year	1.55	0.01	
NZGB 0 1/2 05/15/26	2.19	-0.01	2 year	2.15	-0.00	
NZGB 0 1/4 05/15/28	2.34	-0.01	5 year	2.64	-0.00	
NZGB 1 1/2 05/15/31	2.44	-0.01	7 year	2.68	-0.00	
NZGB 2 05/15/32	2.52	-0.01	10 year	2.73	-0.00	
NZGB 1 3/4 05/15/41	2.84	0.00	15 year	2.77	-0.00	
NZGB 2 3/4 05/15/51	2.91	-0.00				

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

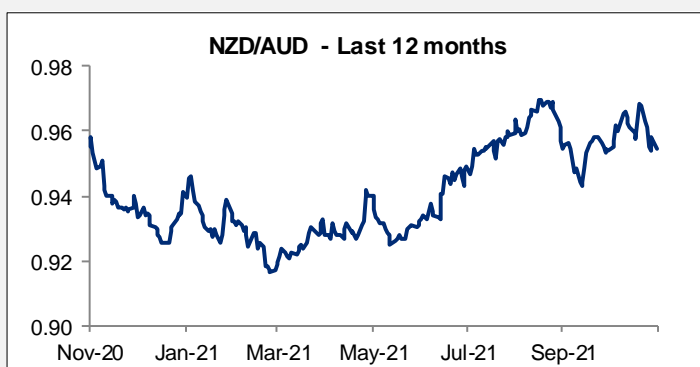
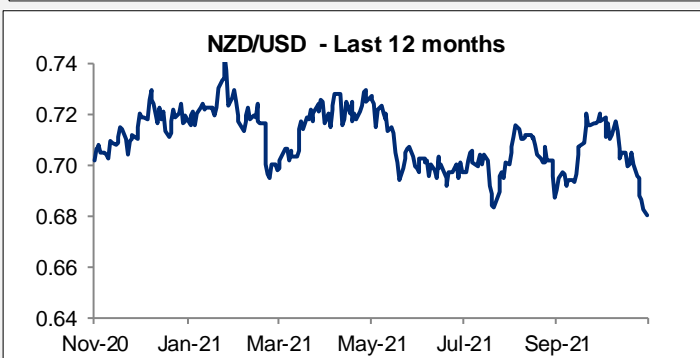
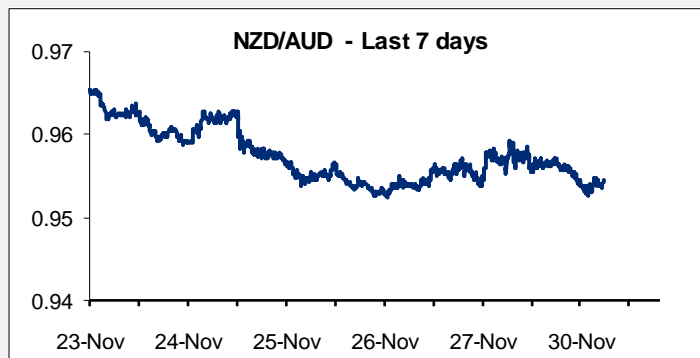
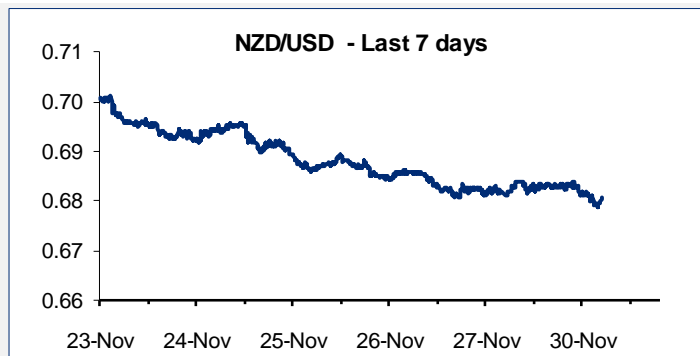
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:04

Source: Bloomberg

NZD exchange rates

30/11/2021 7:05 am		Prev. NY close
USD	0.6805	0.6822
GBP	0.5115	0.5115
AUD	0.9543	0.9577
EUR	0.6038	0.6028
JPY	77.40	77.35
CAD	0.8691	0.8726
CHF	0.6291	0.6297
DKK	4.4899	4.4823
FJD	1.4436	1.4481
HKD	5.3078	5.3201
INR	51.10	51.08
NOK	6.1512	6.1921
PKR	119.53	119.75
PHP	34.29	34.40
PGK	2.3961	2.4004
SEK	6.1810	6.2507
SGD	0.9326	0.9358
CNY	4.3472	4.3615
THB	22.92	22.92
TOP	1.5434	1.5407
VUV	76.84	76.90
WST	1.7744	1.7643
XPF	71.92	71.52
ZAR	10.9849	11.1103



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-2.85	-2.55
3 Months	-8.94	-8.44
6 Months	-25.63	-24.63
9 Months	-49.11	-47.11
1 Year	-75.64	-73.63

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.22	-7.57
3 Months	-18.27	-17.00
6 Months	-42.76	-40.29
9 Months	-74.09	-69.65
1 Year	-105.72	-100.69

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