

## Traffic lights introduced

This morning marks the start of the new COVID-19 protection framework for NZ, aka the traffic light system. It is a step towards greater freedom for the vaccinated (particularly for those in Auckland who have really done it tough since the August 17 lockdown); less so for the unvaccinated. With NZ having to reopen to the outside world, climbing vaccination rates (more than 85% of NZ's eligible population is now fully vaccinated) hold the key to the return to as much as normal a life post-COVID-19 as possible.

**Markets remained volatile as they traded off competing headlines on higher than usual volumes.** Continued uncertainty over the potency of the rapidly spreading Omicron variant was offset by the growing chorus of hawkishness coming from the Fed (see below). There are fears that this bumpy rise will continue, with analysts pointing to continued volatility through till 2022.

**FOMC comments were hawkish.** At their House Testimony FOMC Chair Powell and Treasury Secretary Yellen admitted they underestimated how quickly the US economy would rebound from the COVID-19 and how high and persistent US inflation would be. Yellen later commented that it was the FOMC's job to avoid wage-price spirals. FOMC member Mester (2022 voter) said she was "very open" to a faster FOMC taper and two Fed hikes over 2022. Bostic chimed in, noting a winding up of QE by the end of 2022Q1 would provide the FOMC with the optionality of being able to raise rates sooner if needed. Yesterday's Fed Beige book highlighted moderate growth and widespread price and cost increases due to strong demand, logistical challenges and the tight labour market, pushing back against the 'transitory' inflation view.

**Equity markets were mixed.** With bargain hunters in evidence US stocks retraced earlier falls (Dow +1.8%, S&P500 +1.5%), led by small caps and travel stocks. The Nasdaq only rose 0.7%, with technology stocks weighed down by reports of weaker than expected demand for the iPhone 13. Falls in technology stocks amid Omicron jitters pushed European stocks indices lower (FTSE 100 -0.6%, DAX -1.4%, Euro Stoxx 50 -1.70%). Asian equity indices were mixed.

**The hawkish pivot of the FOMC is sinking into the US Treasury markets,** with yields rising as positions were unwound. There were solid increases in Treasury yields across the curve, led by short-term rates and those in the belly of the curve. Still, 10-year (1.45%) and 30-year yields (1.77%) remain extremely low. European yields were weighed by the pending imposition of further restrictions in Europe (including more restrictions on the unvaccinated in Germany) and comments by ECB member Rehn and Panetta that high Eurozone inflation was mostly transitory. Australasian swap yields rocketed higher, with larger gains for kiwi yields out to the 5-year tenor (2Y +9bps to 2.26%). NZ longer-term government bond yields followed Australian yields lower.

**Oil prices moved higher** amid volatility as OPEC+ deferred the 400k barrel per day production increase and left themselves the option to adjust production if the Omicron variant impacted demand. Gold prices fell as yields rose.

**Data wrap:** US initial jobless claims (222k versus mkt: 240, prior 194k) and continuing claims (at 1,956k the lowest since March 2020) were slightly better than expected, highlighting the tightening US labour market. NZ's Q3 merchandise terms of trade rose 0.7% qoq (mkt: 2.0% qoq) hitting a fresh record [high](#), a key support for the economy. While it is still early days, the moderation in import transport costs (+2.3% qoq, 91% yoy), point to more moderate increases in retail goods and tradable CPI prices over 2022.

**FX Update:** There were generally modest movements in currency markets. The Euro and yen were weighed by higher US yields and improving risk appetite. Sterling, CAD and SEK were the strongest performers overnight. The NZD traded in a 0.6790 to 0.6835 USD range overnight range, with the kiwi hovering at just under 96 Australian cents. Commodity prices and equity market direction will be key barometers to NZD direction.

**Day Ahead:** Today is very light on the events radar, with the key focus tonight's November US employment print (mkt: payrolls +548k, unemployment rate 4.5%). Services PMIs are out for most key trading partners, along with October US durable goods (mkt: -0.5% mom) and October Eurozone retail sales (mkt: +0.3% mom). Comments by the FOMC's Bullard, ECB chief Lagarde and the BOE's Saunders may likely hit market headlines as will developments pertaining to the Omicron variant. Have a good weekend and go out and support local businesses. Author: [mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)

Currencies			Commodities			Equities					
NZD/USD	0.6803	-0.2%	NZD/SEK	6.158	-0.4%	NZX WMP	4225.0	0.0%	Dow	34603	1.7%
NZD/AUD	0.9599	0.2%	NZD/DKK	4.476	-0.1%	Gold \$/o	1763.1	-1.0%	S&P 500	4584	1.6%
NZD/EUR	0.6019	-0.1%	NZD/THB	23.1	0.4%	WTI Oil \$/b	66.8	1.8%	NASDAQ	15314	0.4%
NZD/JPY	76.95	-0.3%	AUD/USD	0.7088	-0.4%	<b>Money Market (%)</b>			FTSE	7129	-0.6%
NZD/GBP	0.5118	-0.3%	EUR/USD	1.130	-0.1%	90 Day BB	0.80	-0.05	CAC-40	6796	-1.3%
NZD/CAD	0.8732	-0.8%	USD/JPY	113.1	0.3%	OCR	0.75	0.00	DAX	15263	-1.4%
NZD/CHF	0.6262	-0.2%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	23789	0.5%
NZD/HKD	5.300	-0.2%	NZ	2.42	-0.04	1yr	1.69	0.09	Nikkei	27753	-0.7%
NZD/SGD	0.9317	0.1%	US	1.45	0.05	2yr	2.27	0.10	ASX200	7225	-0.1%
NZD/CNH	4.339	-0.1%	Aust	1.69	-0.05	5yr	2.63	0.07	NZX50	12670	0.0%

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