

## One more time with feeling

**The recovery in risk sentiment continued and broadened overnight, as markets continue to unwind some of the Omicron negativity of last week.** Stocks have posted healthy gains, particularly in Europe (Eurostoxx 50 +3.3%) and amongst tech stocks (NASDAQ +3.2%). The S&P500 is up around 2% and is largely back to pre-Omicron levels. Importantly, there's been a strong recovery in key risk aversion indicator the VIX (sub 22% after opening at 27%), and this has seen commodity currencies outperform at the expense of safe havens. Oil prices are up almost 4%.

There's been various new snippets out pointing to the fact Omicron might be more transmissible than Delta, but the illness is less severe (all noting it's still early days though, and more data are needed). A Financial Times [article](#) out overnight highlighted that this has so far been the experience in South Africa. Economic data released over the past 24 hours have also tended towards the stronger side of expectations, further helping the mood. Yesterday's Chinese trade figures showed both exports and imports running stronger than expected and, overnight, German industrial production bounced a decent 2.8% mom (vs. +1.0% expected).

**Yesterday's RBA meeting didn't throw up any major surprises, but interest rates and the AUD still rose in the wake of the Statement as the market grows more confident cash rate hikes will be needed next year.** The cash rate target was left at 0.10% and the RBA will continue to purchase government bonds (A\$4b/week) until at least mid-February 2022. Importantly, the RBA (sensibly) adjusted its forward guidance to remove the prior calendar-based conditions. That is, "2023" was removed from the key paragraph stating the conditions for raising the cash rate. Our friends at CBA expect the RBA to cease the bond buying program in May 2022 and start raising the cash rate in November 2022.

**This morning's GDT dairy auction was another good 'un,** albeit with key whole-milk powder prices rising just 0.6% this time, underperforming the likes of butter (2.9%), cheese (+1.0%), and skim-milk powder (+1.3%). Our agri-inclined colleague Nat Keall is retaining his current season \$8.75 kg/ms Fonterra Milk Price forecast which remains 5 cents north of Fonterra's recently upgraded forecast midpoint. Milk Price futures traded on the NZX are sitting at \$9.01.

**There's been plenty of RBNZ chatter to absorb over the 24 hours, but most of it has been in keeping with the previously-espoused views** and hence hasn't moved markets. The RBNZ still intends to lift rates in "considered steps", believes DTIs will be more effective than LVRs on the macro-prudential side, doesn't think inflation expectations are unanchored, and is roughly happy with the speed of the run-up we've seen in retail/wholesale interest rates to date.

**The only 'new news' of note on our reading was a vague attempt to talk the NZ dollar up** ("a higher currency in the short term will actually help us achieve our objectives more quickly"). It's the first time in recent history that this scribe can remember the RBNZ talking about the proper direction for the NZ dollar being anything other than down. But it does highlight: a) how low the currency is relative to traditional fundamentals like interest rate differentials and commodity prices, and b) the size of the task the RBNZ has in front of it in bringing inflation back into its 1-3% target range over the next few years. A bit of help from lower import prices would clearly be appreciated.

**FX market update:** The growth-sensitive commodity currencies have enjoyed a strong night, swept higher on rising risk sentiment. The AUD has topped the leaderboard, helped along by the RBA's less dovish policy update and the Chinese policy easing earlier in the week. The rebound in the NZD/USD looks a little unconvincing, with the kiwi still susceptible to additional USD strength and local interest rate curve flattening. It's about 30 pips above the 0.6745 1-year lows struck earlier in the week.

**Day Ahead:** Zero scheduled event risk in the Asian time zone, and very little tonight other than the interesting but ultimately not market-moving US JOLTS labour market figures. The Bank of Canada meets and is expected to keep its cash rate unchanged at 0.25%. Along with the RBNZ, the BoC has been at the vanguard of the global central bank move to bring forward policy tightening, but it expects to hold off on rate rises till next year. **Author:** [mike.jones@asb.co.nz](mailto:mike.jones@asb.co.nz)

Currencies			Commodities			Equities					
NZD/USD	0.6777	0.4%	NZD/SEK	6.1859	0.8%	CRB Index	223.248	1.2%	Dow	35733	1.4%
NZD/AUD	0.9532	-0.4%	NZD/NOK	6.1235	-0.2%	NZX WMP	4225	#VALUE!	S&P 500	4689	2.1%
NZD/EUR	0.6022	0.7%	NZD/THB	22.80	-0.2%	Gold \$/o	1784.59	0.3%	NASDAQ	15698	3.1%
NZD/JPY	76.96	0.5%	AUD/USD	0.7109	0.9%	WTI Oil \$/b	72.4	4.2%	FTSE	7340	1.5%
NZD/GBP	0.5122	0.7%	EUR/USD	1.1254	-0.2%	NZD Swap Rates (%)			DAX	15814	2.8%
NZD/CAD	0.8581	-0.3%	USD/JPY	113.56	0.0%	OCR	0.75	0.00	CAC-40	7065	2.9%
NZD/CHF	0.6268	0.3%	10 Yr Bond Yields (%)			3mth	0.87	0.00	H.Seng	23984	2.7%
NZD/HKD	5.2839	0.4%	NZ	2.42	0.07	1yr	1.68	0.02	Nikkei	28456	1.9%
NZD/SGD	0.9264	0.2%	US	1.47	0.03	2yr	2.26	0.00	ASX200	7314	0.9%
NZD/DKK	4.4779	0.7%	Aust	1.65	0.06	5yr	2.55	0.00	NZX50	12610	0.0%



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