

## Fly-day Friday

**We'll start with an FX update because that's probably why most of you are here.** The NZD/USD is back above 0.7000 (0.7020), having strapped on gains of 1% in the last 24 hours to top the G10 FX leader board (NZD/AUD 0.9480). This highlights the risk we have been flagging, including in the [CHI](#) last week, that the NZD looks well placed to outperform in any episodes of USD weakness given its superior fundamentals.

**All three key drivers of the currency turned more positive.** Global commodity prices have had yet another strong night, with the gains spread across metals and agricultural commodities this time, not just energy (oil +1%). Risk appetite has also bounced back strongly overnight too with global equity indices a sea of green (S&P500 +1.7%) and the VIX index off 1.5 ppts. Finally, NZ yields continue their march higher with the 2yr swap yield up another 3bps to 1.58% – a fresh 2-year high.

**There was no obvious catalyst for the brighter mood in offshore markets.** The newswires are attributing it largely to a strong start to the US corporate earnings season, particularly amongst financials. A pause for breath in the recent trend higher in global bond yields probably also helped, as well as a stronger set of US weekly jobless claims figures (293k vs. 320k expected). The US 10-year yield is now 8-9 bps below its recent 4-month high around 1.60%.

**It was tempting to conclude the housing market might have finally started to slow, based on a quick glance at yesterday's REINZ figures.** The REINZ House Price Index lifted 'just' 1.4% on the month (s.a.), an annualised pace well into double figures but still the slowest pace of monthly increase in 13 months. Housing activity was also again affected by the higher Alert Levels through September. Monthly house sales fell 13% mom (s.a.), on top of last month's 15% decline.

**However, on closer inspection there was a pretty clear "Auckland vs. the rest" dynamic at play,** hardly surprising given the tighter restrictions in Auckland. Auckland house prices rose only 0.4% in September, compared to a strong 2.3% mom increase in the nationwide "ex-Auckland" index. Canterbury posted a strong 4.5% monthly increase (36.2% yoy) with a whopping 7.3% *monthly* lift in the Northland HPI perhaps indicative of Aucklanders on the hunt for a COVID bolt hole. Looking ahead, mortgage rates are on the rise with more to come. The RBNZ is also ratcheting up LVR requirements on owner-occupiers. These factors support our core view of annual house price inflation slowly turning south from here. We suspect the post-lockdown bounce in Auckland will be more subdued than last time given the slower exit from lockdown.

**Yesterday's Australian September labour market figures were about as shocking as expected,** with employment going backwards 138k (slightly more than the 110k expected). The unemployment rate ticked up only 0.1 ppts to 4.6% thanks to a sharp fall in the participation rate. Markets and economists have already moved on though, with all eyes on the expected rebound now that NSW, and shortly Victoria, are opening up again. As such, there was little reaction.

**A [speech](#) from the RBNZ Deputy Governor yesterday was mostly one for the boffins.** There was nothing market-moving. To us, it was the Bank laying another piece of the groundwork for the introduction of additional macroprudential policy in coming months (subject to consultation). It noted, as we have [before](#), that household balance sheets still look strong, despite the sharp run-up in debt. However, they are "more vulnerable" than before the pandemic given stretched debt/income metrics. The speech also flagged the benefits in restricting lending to more vulnerable borrowers.

**Day ahead:** We should get a good bounce-back in the September NZ PMI manufacturing index this morning (10am). That's if this week's upbeat read on business sentiment is any guide. Recall, the index plunged to 40.1 from 62.2 in August as the Alert Levels were ratcheted up. Tonight, markets are braced for a modest fall in US retail sales (-0.2% mom) as supply bottlenecks and the expiry of supplementary insurance benefits take a toll.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7030	1.0%	NZD/SEK	6.0705	0.3%	CRB Index	235.699	-0.1%	Dow	34882	1.5%
NZD/AUD	0.9481	0.5%	NZD/NOK	5.9415	0.4%	NZX WMP	3850	0.4%	S&P 500	4438	1.7%
NZD/EUR	0.6061	0.9%	NZD/THB	23.31	1.0%	Gold \$/o	1798.73	0.3%	NASDAQ	14810	1.6%
NZD/JPY	79.90	1.3%	AUD/USD	0.7415	0.5%	WTI Oil \$/b	81.3	1.1%	FTSE	7208	0.9%
NZD/GBP	0.5138	0.8%	EUR/USD	1.1598	0.1%	<b>NZD Swap Rates (%)</b>			DAX	15463	1.4%
NZD/CAD	0.8700	0.5%	USD/JPY	113.66	0.3%	OCR	0.50	0.00	CAC-40	6685	1.3%
NZD/CHF	0.6491	0.9%	<b>10 Yr Bond Yields (%)</b>			3mth	0.69	0.01	H.Seng	24963	-1.4%
NZD/HKD	5.4675	1.0%	NZ	2.20	-0.01	1yr	1.21	0.02	Nikkei	28551	1.5%
NZD/SGD	0.9479	0.7%	US	1.52	-0.02	2yr	1.58	0.02	ASX200	7312	0.5%
NZD/DKK	4.5096	0.9%	Aust	1.63	-0.06	5yr	1.98	0.00	NZX50	13048	0.0%



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