Daily Alert
New Zealand Edition

15 December 2021

Stand by for central-bank-o-rama

Market sentiment has remained a bit skittish overnight, just as we get ready to dive into the week's big central bank meetings with the Fed out tomorrow morning. Equities have dipped, commodity prices have pared back and safe-haven currencies have generally been in vogue (especially so the USD and the Swiss Franc). The anxious mood wasn't helped by a solid lift in US producer price indices, up 0.8% mom vs a surveyed +0.5%. Portentous circumstances for Powell and pals to be assembling under, in other words.

Sharemarkets are a trans-Atlantic sea of red. As is typical when risk sentiment wanes, there was an outsized fall in the Nasdaq (-1.87%) and slightly smaller dips in the other Wall Street indices (Dow and S&P500 down 0.42% and 1.12%, respectively. European equities are down by similar magnitudes. **In other growth-sensitive assets, energy commodities have also retreated, with WTI crude down circa 2.5% to trade at circa USD$70.52 a barrel.**

After falling the night before, Treasury yields have recovered – but only a little. Yields are up circa 2-3bps across the curve, with a slight steepening bias. Stand by for action.

The safe-haven USD and Swiss Franc have benefitted from the pre-Fed jitters, though the Pound has actually been the winner in the G10 overnight. That follows relatively positive UK employment data, and perhaps the (reasonable) view that the BoE is likely to be by far the most hawkish of the 'big four' monetary policy makers over the wires in the next few days. NZD/USD has shimmied down to around 0.674, but the Aussie has been more battered by the headwinds, leaving NZD/AUD up a shade just north of 0.949.

Local Recap: Not much to report. A modest dip in equities (NZX50 -0.5%) and some downward pressure on swap yields with a flattening bias on the curve (2-year down about 2bps, 10-year falling just under 4bps).

Data Wrap: Nothing earth-shattering, but a smattering of *hors d'oeuvres* ahead of the big central bank meetings in the latter half of the week. NZ food and rent prices shifted -0.6% and +1.1%, respectively, neither disabusing us of our forecast annual inflation will print at 6% as we end the year. MBIE weekly card data showed a +1.8% week-on-week lift, led by post-traffic light gains in Auckland. Aussie business confidence data underperformed, with business *conditions* little changed (+12 vs +11 in Oct) but business *confidence* slip sliding away (down to +12 from +21 in Oct). Chuck it on the pile. Further abroad, the UK unemployment rate was down a decimal point at 4.2%, in line with expectations.

Day ahead, the big-uns: Before we dive into monetary policy, we'll wallow on the fiscal side of things today, with the Treasury's Half Year Economic and Fiscal Update (or HYEFU if you'd prefer to be snappier). Despite the lengthy lift in Alert Levels, competent stewardship of the public finances and NZ's economic outperformance mean both the OBEGAL and net core crown debt are likely to be a much lighter shade of red than was projected back on Budget day. The key message will be the need to tighten up settings both mildly and gradually from here, avoiding the overtightening that constrained the post-GFC economic recovery.

Tomorrow at 8:00am, the Fed kicks off the first of the week's big central bank meetings. The onward march to withdrawing monetary support continues – we expect the Fed to speed up the pace of tapering (perhaps to $25bn/month), publish a dot plot showing most members expect *two* rate hikes in 2022 and hint at higher endpoint for the Fed Funds Rate (1.8% - 2%). After Jerome Powell's more hawkish comments of late, the risk is that the Fed kicks of central-bank-o-rama with more hawkish signals than the consensus view currently expects.

Among the other highlights: Chinese economic data should show growth rebounding, albeit with falling real estate investment acting as a drag. Canadian CPI inflation is likely to remain elevated at the 4.9%/yr mark. We expect a strong, 0.8% mom lift in US retail sales, helped along by easing COVID infection rates boosting volumes (yay!) and inflationary pressures giving things a nominal boost (boo!). **Author:** nathaniel.keall@asb.co.nz.

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6745	-0.1%	NZD/SEK	6.168	0.5%	NZX WMP	4225.0		Dow	35489	-0.4%
NZD/AUD	0.9493	0.3%	NZD/DKK	4.452	0.1%	Gold $/o	1771.8	-0.8%	S&P 500	4616	-1.2%
NZD/EUR	0.5987	0.0%	NZD/THB	22.5	-0.1%	WTI Oil $/b	69.5	-2.5%	NASDAQ	15113	-1.9%
NZD/JPY	76.70	0.0%	AUD/USD	0.7105	-0.4%	**Money Market (%)**			FTSE	7219	-0.2%
NZD/GBP	0.5100	-0.2%	EUR/USD	1.127	-0.2%	90 Day BB	0.87	0.00	CAC-40	6895	-0.7%
NZD/CAD	0.8675	0.3%	USD/JPY	113.7	0.1%	OCR	0.75	0.00	DAX	15454	-1.1%
NZD/CHF	0.6228	0.0%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	23636	-1.3%
NZD/HKD	5.262	-0.1%	NZ	2.38	-0.05	1yr	1.68	-0.01	Nikkei	28433	-0.7%
NZD/SGD	0.9240	0.0%	US	1.44	0.02	2yr	2.21	0.02	ASX200	7378	0.0%
NZD/CNH	4.299	0.1%	Aust	1.55	-0.06	5yr	2.51	0.03	NZX50	12930	0.0%

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