

Fed delivers hawkish pivot, massive 24 hours for event risk ahead

The first read on the just-released FOMC decision is a Statement that was not too far from market expectations for a more hawkish pivot. As expected, the Fed has doubled the pace of tapering to US\$30b/month from January 2022, meaning it will end the programme in March next year instead of June (paving the way for interest rate increases thereafter). FOMC officials also forecast, via the “dot plot”, an earlier and faster pace of interest rate increases. Officials now expect three 25bps increases in the Fed Funds rate (currently 0-0.25%) in 2022, another three in 2023, and two more in 2024. This implies a 2.1% Fed Funds rate by end 2024.

Markets’ knee-jerk response has been to push US interest rates and the USD higher, although not aggressively so given a hawkish pivot had been widely expected. US 10-year yields are up 2-3bps to 1.46% and the USD index is up around 0.2%. This has been enough to pull NZD/USD down to a fresh year-to-date low of 0.6725. **Note that Fed chair Powell is about to speak at the 8:30am (NZT) press conference so all of this could change!**

The big news from yesterday’s HYEFU fiscal update was the slashing of the Government’s bond programme. Issuance projections were cut by NZD\$31b over 2022-2025, enabled by the better fiscal position and a decision to run down cash balances. Government bond yields fell on the news, the 10-year yield finished the day 6bps lower around 2.33%. Fiscal metrics looked much healthier across the board. There is now an earlier expected return to surpluses (in 2023/24), and net public debt is forecast to peak much lower around 40% (from 53%).

Data wrap: The NZ current account deficit widened by a bit more than expected in Q3 (4.6% of GDP vs. 4.5% expected); China activity data (retail sales, industrial production, investment) continued to soften in November thanks to renewed COVID restrictions and the property sector slowdown; UK inflation figures were the latest to positively surprise (5.1% vs. 4.8% expected); US retail sales hit a bit of a soft patch in November after a cracking three months prior. Headline sales rose just 0.3% mom, less than half the 0.9% expected.

Day ahead: Plenty. Local Q3 GDP figures will be the highlight ‘o’ the day, revealing how deep the Delta-driven chasm turned out to be, ahead of the expected economic rebound in the current quarter. We’ve rowed back our previously more negative expectations to forecast ‘just’ a 3.3% quarterly decline (market -4.1% qoq). After the usual post-data jostling, markets should move on quite quickly.

Our friends at CBA expect this afternoon’s November **Aussie labour market numbers** to show a massive lift, reflecting the NSW, VIC, and ACT reopening (+250k jobs, unemployment rate down to 4.7%). There’s also a speech from the RBA Governor (12:30pm) and MYEFO Aussie Budget update to keep an eye on. Still, the degree of market interest in all of this might be limited by the start of the **2nd Ashes test** (4pm NZT, Adelaide Oval). Conditions look more favourable (less unfavourable?) for England, and here’s hoping they actually play their best side to make it competitive.

Tonight, policy meetings at the Bank of England and European Central Bank will dominate. The ECB is expected to outline plans for the wind-down of its asset purchase programme. Markets have pushed back BoE rate hikes into (March) 2022 following Omicron’s arrival (highest UK case count last night since the pandemic began) and it will be interesting to see if the BoE ratifies this pricing.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6730	-0.3%	NZD/SEK	6.148	-0.4%	NZX WMP	4225.0	NA	Dow	35606	0.2%
NZD/AUD	0.9449	-0.5%	NZD/DKK	4.452	-0.1%	Gold \$/o	1764.3	-0.4%	S&P 500	4646	0.2%
NZD/EUR	0.5987	0.0%	NZD/THB	22.5	-0.1%	WTI Oil \$/b	70.5	-0.3%	NASDAQ	15279	0.3%
NZD/JPY	76.82	0.1%	AUD/USD	0.7122	0.2%	Money Market (%)			FTSE	7171	-0.7%
NZD/GBP	0.5098	-0.1%	EUR/USD	1.124	-0.2%	90 Day BB	0.88	0.00	CAC-40	6928	0.5%
NZD/CAD	0.8682	0.1%	USD/JPY	114.2	0.4%	OCR	0.75	0.00	DAX	15476	0.1%
NZD/CHF	0.6245	0.2%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	23421	-0.9%
NZD/HKD	5.252	-0.2%	NZ	2.35	-0.04	1yr	1.72	0.03	Nikkei	28460	0.1%
NZD/SGD	0.9216	-0.3%	US	1.46	0.02	2yr	2.25	0.03	ASX200	7327	-0.7%
NZD/CNH	4.293	-0.1%	Aust	1.57	0.02	5yr	2.54	0.02	NZX50	12869	0.0%

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