Daily Alert
New Zealand Edition

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ASB

A common problem

This morning we released our Quarterly Forecasts that highlighted the challenges facing the NZ economy in the years ahead as it adjusts to the 'new normal' of a post-delta NZ economic landscape. Key snippets include the economy generally improving, but the upturn being highly uneven heading into 2022, with growing pains in some sectors and continued scarring from COVID-19 and related restrictions in others. Pressures on economy-wide and labour capacity are set to remain acute, and inflation elevated in the short term. Given the tightening that also already occurred we still expect a gradual and moderate sequence of OCR hikes and a 2% endpoint from late 2022.

RBNZ Governor Orr was on the wires last night and sought to reinforce the key messages from Wednesday's MPS. Orr reiterated the case for OCR hikes, but emphasising the need for "slow, steady steps" given that inflation expectations remained anchored. Still the RBNZ maintained the option to "assess along the way" the speed and magnitude of hikes. Mindful to avoid a taper tantrum, Orr pledged to 'carefully" manage down the RBNZ's LSAP holdings, with details to be released next February. We suspect the DMO will purchase the bonds directly from the RBNZ.

NZ is not alone. Accelerating inflation prompted another 25bp hike yesterday by the Bank of Korea (to 1%), with hikes likely to continue over 2022. Last night BoE Governor Bailey warned that the BoE will have to raise rates if high inflation seeps into inflation and kicks off a wage/price spiral. Yesterday morning's US FOMC meeting minutes noted "many participants" flagged the risks of high inflation being more persistent, with "various members" noting the FOMC should be prepared to speed up the pace of tapering and instigate rate hikes sooner.

With the US celebrating Thanksgiving, and with US equity and bond markets closed, there was little market action overnight, with trading on low volumes. Global data were also sparse with only sporadic central bank chatter. European equities ground higher, putting aside concerns over FOMC tapering and surging COVID-19 cases In Europe (and the attendant imposition of restrictions). European bond yields were lower with a curve-flattening bias. Risk appetite had earlier been dented by concerns over the health of the Chinese economy amid calls for more policy stimulus from the Chinese State Council, although strong capital inflows provided a boost to the Chinese yuan.

Commodity prices were generally weighed by the high USD. Oil prices were also dampened by higher US crude inventories and signals that OPEC+ members may increase supply. Gold prices were little changed.

Local market update: NZ yields have largely held onto their post-MPS falls, with minor gains on thin liquidity. The 2-year swap (2.23) ended yesterday close to 20bps below pre-MPS levels. NZ Government bond yields were a tad higher, with solid demand for yesterday's $500m tender of the 2026,2031 and 2037 lines, with yields 1-2bps below mid-market levels. The NZD has remained marooned below Wednesday afternoon levels against the major crosses and the NZX50 posted modest gains (+0.2%). Australian yields pushed modestly higher in quiet trading.

There was little market reaction from Australasian data. The NZ October trade stats showed a $1,286m deficit, with the annual deficit widening to $4.92bn, the widest in two years. Imports have continued to trend higher, with only mixed signs of freight disruptions impacting. Yesterday's ASB Commodities Weekly, confirmed a fresh record high for NZD export commodity prices, which should cap the widening of the trade deficit. The Australian Q3 capex figures showed 2.0% qoq fall (mkt: -2.2% qoq), but investment plans for 2021/22 were raised to lie 16% above year-ago levels in nominal terms.

FX Update: The strong USD thematic remained broadly intact with the USD index holding at close to 16-month lows. However, the USD has lost ground against the CAD, SEK and CNH. The NZD remained stuck at the bottom of the G10 currency ladder, trading in a 0.6840-0.6880 USD range. The NZD is currently 0.9535 AUD, around 1 Australian cent lower than prior to Wednesday's RBNZ OCR announcement. We remain constructive on the NZD outlook, although note that narrowing NZ interest rate differentials with global peers will remove a leg of NZD support.

Day Ahead: NZ consumer confidence for November should improve from the weak October readings (98), but remain below historical averages, hampered by difficulties in purchasing major items, with consumer inflation expectations to remain elevated. Easing restrictions should produce a solid October bounce in Australian retail sales (mkt: 2.2% mom, CBA: 3.5% mom). With US consumers hitting the shops for Black Friday sales, no major US or European data out, and with a speech by BoE Chief Economist Pill on the economic outlook the major central bank missive, tonight should be reasonably quiet. Have a good weekend **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6856	-0.2%	NZD/SEK	6.224	-0.8%	NZX WMP	4225.0	0.0%	Dow	35804	0.0%
NZD/AUD	0.9541	-0.1%	NZD/DKK	4.549	-0.3%	Gold $/o	1788.8	0.0%	S&P 500	4701	0.2%
NZD/EUR	0.6118	-0.2%	NZD/THB	22.9	-0.1%	WTI Oil $/b	78.4	-0.1%	NASDAQ	15845	0.4%
NZD/JPY	79.09	-0.2%	AUD/USD	0.7185	-0.1%	**Money Market (%)**			FTSE	7310	0.3%
NZD/GBP	0.5145	-0.2%	EUR/USD	1.121	0.1%	90 Day BB	0.80	0.00	CAC-40	7076	0.5%
NZD/CAD	0.8672	-1.5%	USD/JPY	115.4	-0.1%	OCR	0.75	0.25	DAX	15918	0.2%
NZD/CHF	0.6417	0.0%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	24740	0.2%
NZD/HKD	5.346	-0.2%	NZ	2.58	0.02	1yr	1.59	-0.02	Nikkei	29499	0.7%
NZD/SGD	0.9381	-0.2%	US	1.63	0.00	2yr	2.23	0.00	ASX200	7407	0.1%
NZD/CNH	4.379	-0.3%	Aust	1.88	0.01	5yr	2.72	0.02	NZX50	12795	0.0%

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