

4 August 2021



Events Round-Up

AU: Home loans value (m/m%), Jun: -1.6 vs. 2.0 exp.

AU: Building approvals (m/m%), Jun: -6.7 vs. -4.0 exp.

AU: RBA cash rate target (%), Jul: 0.1 vs. 0.1 exp.

AU: RBA 3-yr yield target, Jul: 0.1 vs. 0.1 exp.

Good Morning

There hasn't been much news overnight, but global equity markets have pushed higher. The US 10-year rate continues to hover near recent lows. The NZD and AUD haven't made any progress overnight after both rising yesterday following press releases by the RBNZ and RBA.

The S&P500 is currently up 0.7%, hovering just under the record high set late last month while the Euro Stoxx 600 closed up 0.2% after recording a fresh record. Equity markets seem well supported by decent earnings reports and low interest rates, offsetting lingering concerns about the spreading delta variant of COVID19. Global rates are little changed, with the US 10-year rate range-bound between 1.15-1.20%.

New York City became the first city in the US to require proof of vaccine for access to indoor restaurants, gyms and other entertainment, a measure to help contain the spread of the delta variant of COVID19 and encourage more vaccinations. Meanwhile a growing list of companies are requiring workers to be vaccinated before being allowed into workplaces, including Microsoft, Google and Tyson Foods. The growing outbreak in China, as we reported yesterday, has led to some travel restrictions imposed in Beijing.

Oil prices are trading on the soft side, with plenty of commentary around the possibility of weaker demand as COVID19 spreads across China. One analyst from China raised the possibility of a 5% wipe-out of demand through this round of infection. Reduced travel is evident as flights are being cancelled, as is cross-regional trucking activity.

In currency markets, the NZD and AUD head the daily leaderboard after their appreciation during local trading hours, but with no further progress overnight. Updates from the RBNZ and RBA yesterday supported both currencies. The NZD has sustained a move above 0.70, meeting some resistance just under 0.7020 overnight. The AUD shot above the 0.74 mark immediately following the

RBA announcement and has since settled just under that mark. Elsewhere, currency movements have been immaterial.

The RBNZ signalled that it would tighten mortgage lending standards further by restricting the amount of lending banks can do above an LVR of 80% to 10% of all new owner-occupied loans, down from 20% at present. The change in policy will likely come in from 1 October. New loans with an LVR above 80% have been running at less than 10% of new commitments for the past nine months, so the impact on the housing market will be fairly minimal. Investors already face much tougher restrictions. Furthermore, the Bank got the nod from the Finance Minister to consult on debt-to-income restrictions, which will take longer to implement.

However, more importantly for the market, the surrounding commentary was hawkish. For the first time, the RBNZ admitted that house prices were above their sustainable level, acknowledging that low interest rates were a factor. Governor Orr noted that the OCR and the Bank's financial stability tools "need to be mutually supportive" and the MPC "needs to think about when and how [not if] we would return interest rates to more normal levels" and that "our next opportunity...is the 18 August Monetary Policy Statement".

This signal from the Bank gave the market more confidence that the OCR would rise as soon as 18 August. For the day, OIS pricing for the August meeting rose 6bps to 0.47%, taking the probability of a 25bps hike for that meeting to 88% and the market is back to pricing just over two 25bps hikes for the three remaining meetings this year. This fed through into short-term swaps yields, with the 2-year rate closing up 7bps to 1.12%, its highest level since pre-COVID. Global rates were held down by global forces and, with little change in the 10-year rate, there was a significant flattening of the curve. NZGBs showed a similar flattening, with the 10-year NZGB unchanged at 1.53%.

NZ labour market data today are the last key indicators ahead of the RBNZ MPS in a couple of weeks. The activity data are expected to be stronger than the Bank thought three months ago and broadly consistent with the objective of maximum sustainable employment, with the unemployment rate expected to fall further to 4.4%. From an RBNZ perspective, there is only a small chance of an upside surprise in the wage data because the Bank already

projected a hefty LCI increase of 0.8% q/q. Data in-line or stronger than the market expects should seal the deal for an August rate hike.

In the overnight GDT dairy auction, the price index fell for the eighth consecutive event, down 1.0%, with whole milk powder down 3.8%. Other products performed better, with skim milk powder up 1.5%, cheddar up 0.7% and butter up 3.8%. Despite recent falls in dairy prices, a lot of the weakness has been expected and the NZD has been on the soft side, so milk payout futures for FY22 remain solid, rising up over the past month to around \$7.90 for FY22 and only slightly lower than the early-June peak of just over \$8.

The RBA caught the market a little off-guard by sticking to the plan on tapering bond purchases from \$5b to \$4b per week from next month, seemingly unperturbed by the recent outbreak of COVID19. The RBA remains optimistic that the economy will bounce back quickly and noted that prior to the current virus outbreaks, the Australian economy had considerable momentum. The Bank's central unemployment rate projections were reduced, while underlying inflation is expected to track higher, rising to 2¼% in 2023. This leaves open the chance that an upside surprise could see inflation return to the 2½% mid-point earlier than expected and thus an earlier start to the hiking

cycle than the Bank is currently willing to guide. While the AUD pushed higher as noted, interest rate movements have been well contained.

In the day ahead, as noted NZ labour market data will be the headline act today. US ADP employment and ISM services index are the key releases tonight and Fed vice-Chair Clarida's comments at an event overnight will also be worth paying attention to.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	QES avg hrly earnings (q/q%)	Q2	0.8	-0.1	10:45
NZ	LCI pvt wages x overtime (q/q%)	Q2	0.7	0.4	10:45
NZ	Employment (q/q%)	Q2	0.7	0.6	10:45
NZ	Unemployment rate (%)	Q2	4.4	4.7	10:45
AU	Real retail sales (q/q%)	Q2	0.8	-0.5	13:30
CH	Caixin PMI services	Jul	50.5	50.3	13:45
US	ADP employment change (k)	Jul	690	692	00:15
US	ISM services index	Jul	60.5	60.1	02:00
US	Fed's Clarida speaks at Peterson Institute event				02:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**					
Indicative overnight ranges (*)					Other FX		Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7015	+0.6	0.6983	0.7019	CHF	0.9040	-0.2		S&P 500	4,417	+0.7	34.1	Oil (Brent)	72.45	-0.6
AUD	0.7395	+0.5	0.7361	0.7404	SEK	8.601	+0.0		Dow	35,058	+0.6	31.5	Oil (WTI)	70.64	-0.9
EUR	1.1865	-0.1	1.1854	1.1893	NOK	8.811	-0.2		Nasdaq	14,730	+0.3	35.1	Gold	1809.4	-0.5
GBP	1.3915	+0.2	1.3883	1.3939	HKD	7.779	+0.1		Stoxx 50	4,118	+0.0	26.8	HRC steel	1840.0	-1.6
JPY	109.11	-0.2	108.88	109.25	CNY	6.470	+0.1		FTSE	7,106	+0.3	17.8	CRB	215.3	-0.2
CAD	1.2537	+0.2			SGD	1.352	-0.1		DAX	15,555	-0.1	23.0	Wheat Chic.	735.3	-0.5
NZD/AUD	0.9486	+0.2			IDR	14,342	-0.6		CAC 40	6,724	-0.2	37.9	Sugar	17.98	+0.2
NZD/EUR	0.5912	+0.7			THB	33.04	+0.2		Nikkei	27,642	-0.5	22.5	Cotton	90.30	+0.1
NZD/GBP	0.5041	+0.4			KRW	1,148	-0.2		Shanghai	3,448	-0.5	2.3	Coffee	174.9	+1.6
NZD/JPY	76.54	+0.4			TWD	27.90	-0.0		ASX 200	7,474	-0.2	23.8	WM powder	3790.0	-0.3
NZD/CAD	0.8795	+0.9			PHP	49.62	-0.6		NZX 50	12,701	-0.0	7.9	Australian Futures		
NZ TWI	74.32	+0.5											3 year bond	99.71	-0.02
													10 year bond	98.85	-0.02
Interest Rates						NZ Government Bonds				NZ Swap Yields					
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	0.25	0.12	0.25	1.20	USD	1.18	-0.00	NZGB 5 1/2 04/15/23	0.77	0.06	1 year	0.91	0.08		
AUD	0.10	0.02	0.20	1.26	AUD	1.16	-0.03	NZGB 2 3/4 04/15/25	1.04	0.04	2 year	1.12	0.07		
NZD	0.25	0.50	1.13	1.81	NZD	1.53	0.01	NZGB 4 1/2 04/15/27	1.23	0.02	5 year	1.47	0.02		
EUR	0.00	0.06	-0.50	-0.10	GER	-0.48	0.01	NZGB 3 04/20/29	1.43	0.01	7 year	1.62	0.00		
GBP	0.10	0.07	0.42	0.80	GBP	0.52	-0.00	NZGB 1 1/2 05/15/31	1.53	0.00	10 year	1.80	-0.00		
JPY	-0.05	-0.10	-0.03	0.04	JPY	0.01	-0.01	NZGB 2 3/4 04/15/37	1.99	-0.01	15 year	2.01	-0.01		
CAD	0.25	0.44	0.76	1.58	CAD	1.12	-0.08	NZGB 1 3/4 05/15/41	2.26	-0.02					

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

NZD exchange rates

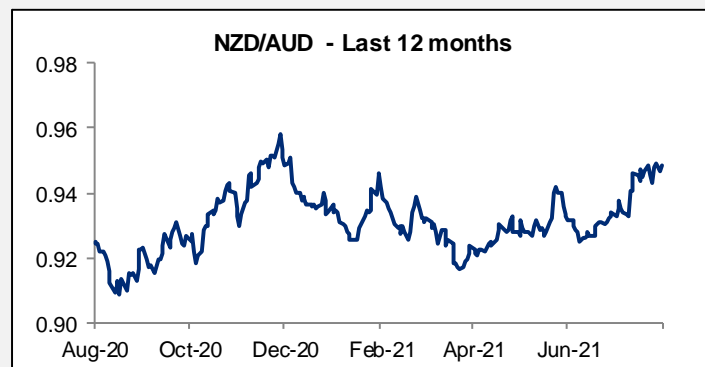
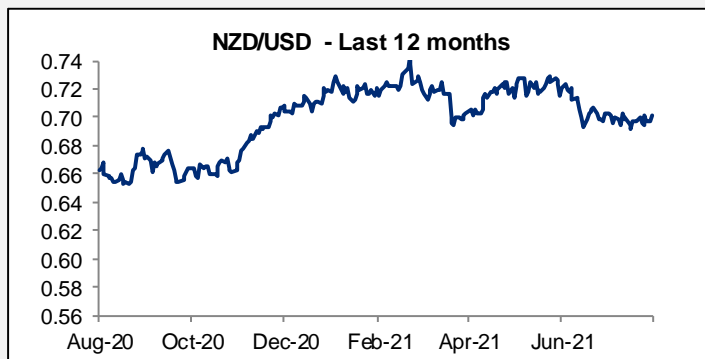
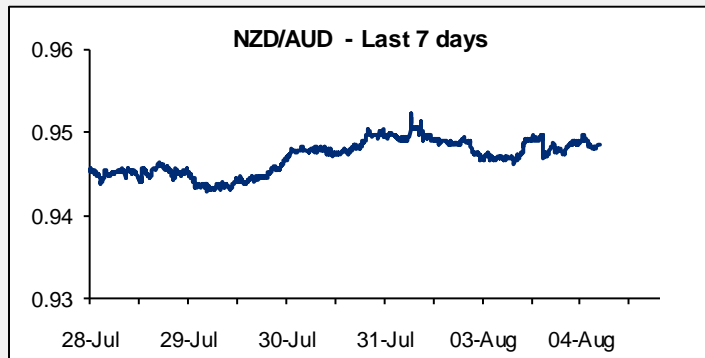
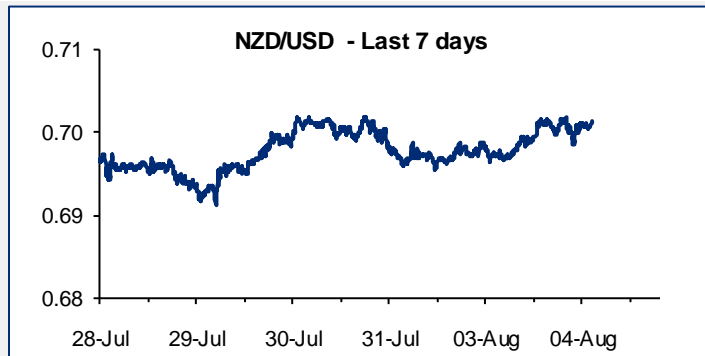
4/08/2021	6:56 am	Prev. NY close
USD	0.7015	0.697
GBP	0.5041	0.5021
AUD	0.9486	0.9469
EUR	0.5912	0.5872
JPY	76.54	76.19
CAD	0.8795	0.8719
CHF	0.6342	0.6311
DKK	4.3974	4.3679
FJD	1.4670	1.4572
HKD	5.4568	5.4174
INR	52.11	51.82
NOK	6.1806	6.1564
PKR	114.78	113.21
PHP	34.80	34.79
PGK	2.4614	2.4456
SEK	6.0335	5.9932
SGD	0.9481	0.9430
CNY	4.5389	4.5041
THB	23.16	22.96
TOP	1.5679	1.5565
VUV	77.75	77.26
WST	1.7913	1.7831
XPF	70.52	69.93
ZAR	10.0491	10.0873

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.83	-0.49
3 Months	-4.72	-4.21
6 Months	-15.17	-14.17
9 Months	-29.33	-27.67
1 Year	-46.90	-44.90

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.75	-2.01
3 Months	-10.53	-9.37
6 Months	-29.22	-26.90
9 Months	-49.92	-46.28
1 Year	-74.34	-69.70



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