

9 August 2021



Events Round-Up

GE: Industrial production (m/m%), Jun: -1.3 vs. 0.5 exp.
 US: Change in nonfarm payrolls (k), Jul: 943 vs. 870 exp.
 US: Unemployment rate (%), Jul: 5.4 vs. 5.7 exp.
 US: Average hourly earnings (y/y%), Jul: 4 vs. 3.9 exp.
 CA: Employment change (k), Jul: 94 vs. 150 exp.
 CA: Unemployment rate (%), Jul: 7.5 vs. 7.4 exp.
 CH: Exports (US\$, y/y%), Jul: 19.3 vs. 20 exp.
 CH: Imports (US\$, y/y%), Jul: 28.1 vs. 33.3 exp.

Good Morning

The US 10-year rate moved sharply higher, to 1.30%, and the USD appreciated after a stronger-than-expected US nonfarm payrolls report on Friday night. The S&P500 closed slightly higher, with rotation back into reflation trade favourites and away from tech firms. The NZD closed out the week back down towards 70 cents.

The July nonfarm payrolls report was a strong one. Employment growth in the month was 943k, above the 870k consensus, with upward revisions to previous months totalling 119k (June revised from 850k to 938k). The unemployment rate, which rose unexpectedly in June, dropped sharply from 5.9% to 5.4% (5.7% expected) while wage growth was stronger than expected. Average hourly earnings have increased at an annualised pace of more than 5% over the past three months, despite the bulk of new jobs created being in lower paid sectors such as leisure and hospitality, which would typically depress this measure of wage growth. Broader measures of the labour market also improved, with the underemployment rate falling 0.6%, to a new post-Covid low of 9.2%.

The question for the market is whether “substantial further progress” in the labour market, which the Fed is looking for as a precondition for tapering its bond buying, might be met sooner than the end of year timetable suggested by Fed Chair Powell at the FOMC meeting and Fed Governor Brainard last weekend. Certainly, the debate has started to pick up amongst various committee members. Earlier last week, relatively recent Fed Governor Waller said the Fed could be ready to make a tapering announcement in September if the next two payrolls reports were as strong as June. We can tick that box for July. Either way, it will refocus attention on

Powell’s keynote address at the Jackson Hole symposium later this month to see whether the Chair is coming around the view of an earlier tapering announcement.

The reaction in both the interest rate and currency markets to payrolls was immediate. The US 10-year rate pushed 7bps higher, to a two-week high of 1.30%. It was only Thursday morning, ironically after the ADP employment report suggested substantial downside risks to this payrolls number, that the US 10-year rate had touched 1.12%. The yield curve steepened, with 2 and 3-year US rates up just 1bps and 3bps respectively, suggesting the market didn’t see payrolls as significantly altering the Fed cash rate outlook over the next few years. 10-year rates were 4bps higher in Germany, to -0.22%, and 8bps higher in the UK, to 0.61%, a day after the Bank of England said “some modest tightening” might be appropriate over the next few years.

The Bloomberg USD index was up more than 0.5% on Friday, on the possibility of an earlier Fed tapering, with broad-based gains against all the G10 currencies. The BBDXY is now within 1% of its highs for the year.

The EUR fell back to near its recent lows (-0.6% at around 1.1760) while USD/JPY pushed up 0.4% to above 110. Both the AUD and NZD were down 0.7% on Friday, with the NZD finishing the week just above the 70 cent mark. Despite broad-based USD strength last week, the NZD was the top performer (+0.5%), courtesy of the massive upside surprise to the NZ HLFS labour market report and ensuing repricing of the RBNZ OCR outlook. Movements in NZD crosses were reasonably minor on Friday, with NZD/AUD finishing the week around 0.9530.

Canada’s labour market report was a bit softer than expected, with employment growth coming in short of expectations, at +94k, and the unemployment rate falling by less than expected, to 7.5%. The composition of jobs growth was more encouraging, being skewed towards full-time employment, and the market still expects further tapering from the Bank of Canada and lift-off in the cash rate around mid-2022. The CAD still outperformed on Friday, albeit only marginally, down 0.4% against the USD.

Equity markets saw rotation back to previous reflation trade winners and away from big tech stocks, a reversal of recent trends. The Financials sector of the S&P500 was up 2% on Friday, with bank stocks benefiting from the steeper yield curve which is perceived as supportive of net interest

margins, while the Materials, Energy and Industrials sectors also posted gains. Techstocks, which are typically more sensitive to higher long-term rates, were generally weaker alongside 'bond proxies' such as utilities stocks. The NASDAQ was down 0.4% on Friday, paring its weekly gain to 1.1%. The S&P500 in contrast finished 0.2% higher, at a fresh record high.

Ongoing concerns about the delta variant were put to one side on Friday, with attention all focused on payrolls. US cases have exceeded 700,000 over the last seven days, the highest rate since February, with US health expert Fauci telling CNN over the weekend that booster shots should soon be given to the vulnerable. Meanwhile, the FT reported that a surge in cases in Vietnam had hit manufacturing centres, disrupting global supply chains.

There wasn't much new in either RBA Governor Lowe's parliamentary testimony or the Statement of Monetary Policy that the market hadn't already learned from the Board meeting earlier in the week. Governor Lowe is optimistic that the economy will bounce back from the current lockdowns "well before the end of the year", underpinned by the domestic rollout of vaccines. On the RBA's central scenario, it continues to expect rates to be on hold until 2024 but the upside scenario, whereby the unemployment rate falls below 3.5% by the end of 2023 with inflation in the upper-half of the 2-3% target range at that time, would clearly see them lifting off much earlier. Interest rate markets have been bringing forward the expected timing of RBA policy rate hikes since the Board meeting earlier in the week, with the first hike again priced by the end of 2022.

Movements in the domestic rates market were subdued again on Friday, for the second day running, as the market starts to consolidate after its large, post-HLFS repricing.

There was a slight steepening bias to the swaps curve, although swap rates were all +/- 1bp on the day. NZ curve steepening should be more pronounced today, given the Treasury curve movements on Friday night. With the market already pricing a large amount of near-term RBNZ tightening, shorter term wholesale rates are unlikely to move much higher ahead of the RBNZ MPS next week, but long-term wholesale rates will mirror the moves offshore.

It's a relatively quiet week ahead, both in terms of domestic and international developments. Offshore, the key release is the US CPI report on Wednesday night, which is expected to show some moderation in inflation pressures from previous months (although the year-on-year rates of both headline and core inflation are expected to remain very high, at 5.3% and 4.3% respectively). The market will also be listening intently to the four Fed officials who are speaking this week, for any guidance on the possible timing for tapering in light of the upside surprise to payrolls. New Zealand sees second-tier data released, including the PMI and electronic card transactions. Probably of most interest is the RBNZ's 2-year inflation expectations release, which was 2.05% last quarter but surely has the potential to jump higher this time around, given the surge in both realised inflation and other inflation expectations measures.

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Coming Up

		Period	Cons.	Prev.	NZT
CH	CPI (y/y%)	Jul	0.8	1.1	13:30
CH	PPI (y/y%)	Jul	8.7	8.8	13:30
US	JOLTS Job Openings (k)	Jun	9270	9209	02:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)				Other FX			Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7010	-0.7	0.7002	0.7063	CHF	0.9148	+0.9	S&P 500	4,437	+0.2	32.5	Oil (Brent)	70.42	-1.2
AUD	0.7356	-0.7	0.7347	0.7401	SEK	8.667	+0.6	Dow	35,209	+0.4	28.6	Oil (WTI)	68.28	-1.8
EUR	1.1762	-0.6	1.1754	1.1830	NOK	8.889	+0.8	Nasdaq	14,836	-0.4	33.6	Gold	1760.0	-2.6
GBP	1.3872	-0.4	1.3861	1.3933	HKD	7.780	+0.0	Stoxx 50	4,175	+0.3	28.8	HRC steel	1885.0	+0.8
JPY	110.25	+0.4	109.70	110.35	CNY	6.483	+0.3	FTSE	7,123	+0.0	18.2	CRB	214.5	-0.3
CAD	1.2554	+0.4			SGD	1.355	+0.3	DAX	15,761	+0.1	25.2	Wheat Chic.	733.3	+1.3
NZD/AUD	0.9530	+0.0			IDR	14,353	+0.1	CAC 40	6,817	+0.2	39.5	Sugar	18.68	+0.2
NZD/EUR	0.5960	-0.1			THB	33.44	+0.5	Nikkei	27,820	+0.3	24.6	Cotton	92.42	+1.4
NZD/GBP	0.5053	-0.3			KRW	1,142	-0.1	Shanghai	3,458	-0.2	3.1	Coffee	176.0	-0.5
NZD/JPY	77.29	-0.2			TWD	27.79	+0.1	ASX 200	7,538	+0.4	25.5	WM powder	3590.0	-0.3
NZD/CAD	0.8800	-0.2			PHP	50.41	+0.3	NZX 50	12,770	+0.1	9.6	Australian Futures		
NZ TWI	74.56	-0.3										3 year bond	99.66	-0.03
												10 year bond	98.78	-0.05

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

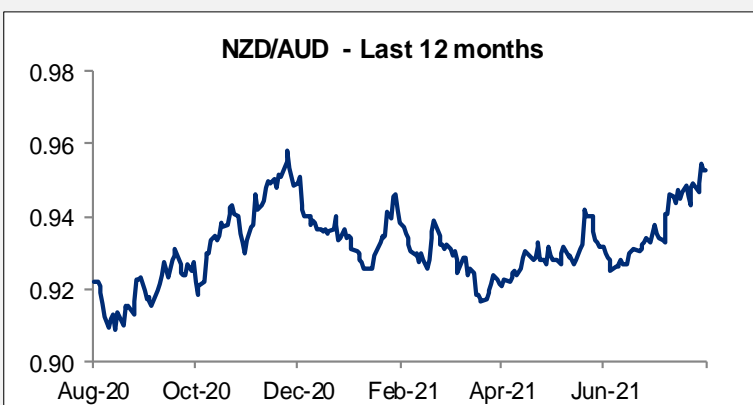
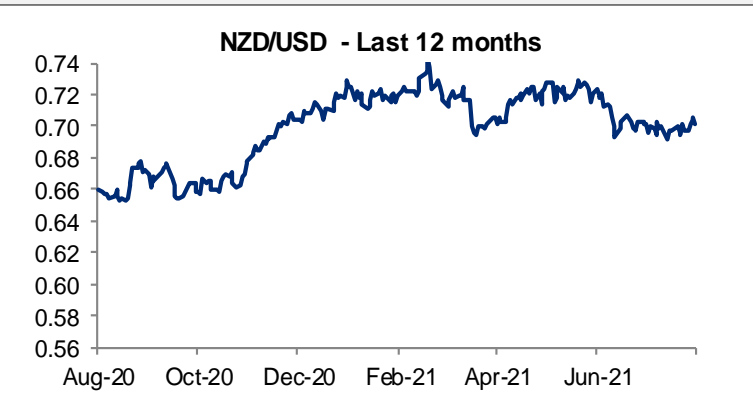
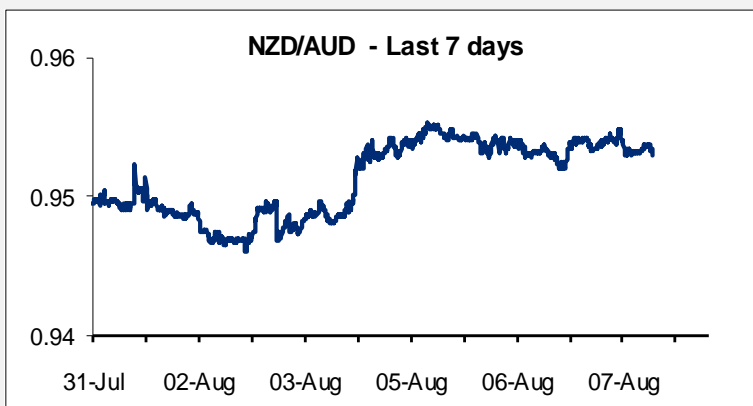
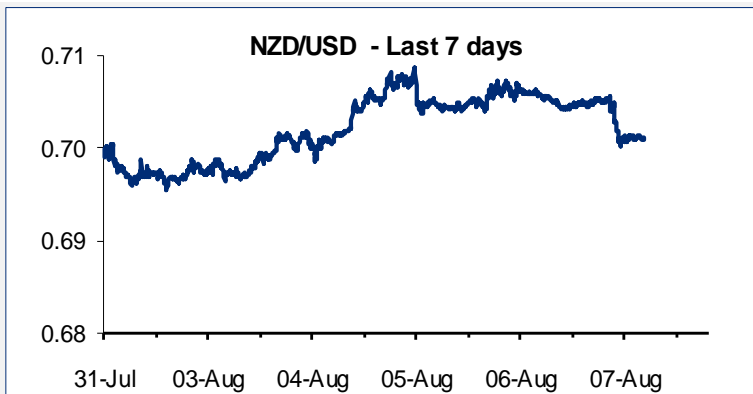
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New York close

Source: Bloomberg

NZD exchange rates

7/08/2021	NY close	Prev. NY close
USD	0.7010	0.7057
GBP	0.5053	0.5066
AUD	0.9530	0.9530
EUR	0.5960	0.5963
JPY	77.29	77.46
CAD	0.8800	0.8825
CHF	0.6413	0.6401
DKK	4.4324	4.4351
FJD	1.4553	1.4632
HKD	5.4539	5.4883
INR	51.98	52.35
NOK	6.2310	6.2217
PKR	114.35	115.37
PHP	35.33	35.12
PGK	2.4579	2.4761
SEK	6.0752	6.0787
SGD	0.9497	0.9534
CNY	4.5447	4.5599
THB	23.38	23.46
TOP	1.5585	1.5745
VUV	77.51	78.03
WST	1.7935	1.8108
XPF	70.61	70.99
ZAR	10.2562	10.2391



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.09	-0.76
3 Months	-6.42	-5.88
6 Months	-18.70	-17.71
9 Months	-34.86	-33.09
1 Year	-54.29	-52.29

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.00	-2.23
3 Months	-12.81	-11.65
6 Months	-34.06	-31.81
9 Months	-58.09	-54.17
1 Year	-85.10	-80.92

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