

10 August 2021



## Events Round-Up

CH: CPI (y/y%), Jul: 1.0 vs. 0.8 exp.

CH: PPI (y/y%), Jul: 9.0 vs. 8.7 exp.

US: JOLTS job openings (m), Jun: 10.1 vs. 9.3 exp.

## Good Morning

The new week has begun with only modest changes in asset prices with the most notable movements confined to commodity markets, mainly to the downside. Despite that backdrop, the NZD and AUD show only minor weakness, with the NZD trading around 0.70. US equities are flat while the US 10-year rate has nudged up further, adding to the increase seen Friday night.

A cautious trading backdrop is evident. Bond investors and precious metals traders are worried about when the Fed might start to taper asset purchases, following strong US jobs data and a hawkish Fed President Bostic keeping the market on its toes; industrial commodity markets are worried about the delta variant spreading through Asia and the impact on the global economy; equity market investors aren't worried about anything (still), keeping prices near record highs. Oh, and we have a "code red for humanity" as the planet rapidly warms faster than previously realised. That sums up the week so far.

Commodity prices show some broadly based weakness. Brent crude fell as much as 4% to below USD67.60 (currently back to USD69) on concerns of weaker demand as COVID19 rips through Asia and as US companies delay return-to-office plans, which reduces demand through lower travel. A number of investment banks have downgraded China growth expectations in the past few days as new travel restrictions have been imposed. Chinese airlines report a reduction in seat capacity of 32% in the past week.

Industrial metals are also softer, with falls for the likes of copper, nickel and aluminium. Gold and silver prices saw a flash crash during illiquid Asian trading conditions, the former temporarily going sub-USD1700 per ounce, before bouncing back. This was linked to a recurrence of selling pressure after Friday night's strong US employment report and the lift in bond yields. The price has drifted lower overnight to be down over 2% for the day to around USD1725.

US job openings surged to a record high in June, blasting up through the 10m mark and well above expectations. The number of vacancies exceeded hires by 3.4m, slightly down from the record high in May. While the data lags the official non-farm payrolls series, it was a reminder of the strength of the US labour market as business gradually returns to normal.

Fed Atlanta President Bostic, a voter this year and a member of the hike-in-2022 camp, showed his hawkish credentials relative to other FOMC members and said that the 943k gain in payrolls was "definitely quite encouraging" in terms of meeting the substantial further progress condition for announcing a taper to the Fed's bond purchases, arguing that another strong report over the next month or two and the condition would be met. Furthermore, he favoured a relatively fast taper, looking to complete the process in a shorter period than done previously.

None of these forces are seemingly a concern for equity investors, with the S&P500 currently flat and the Nasdaq index showing small gains, both trading near record highs. Financials remain in favour as the US yield curve steepens a touch further. The 10-year rate has pushed up to a high of 1.32%, up 2bps for the day and currently nearly that level, after earlier trading just under 1.27%.

The NZD trades around the 0.70 mark, a resilient performance in the face of commodity price weakness, although it remains fair to say that global headwinds will likely remain a headwind against a backdrop of positive domestic forces over the short term. The AUD has weakened a little, down to 0.7335 and seeing the NZD/AUD cross up a touch to 0.9540.

Overall, the USD shows broadly based gains, although changes have been small overall for the key majors we follow. EUR and GBP are slightly weaker at 1.1745 and 1.3855 respectively.

The domestic rates market was quiet yesterday, with yields marked higher and the curve steeper in reaction to Friday night's movement in US Treasuries. The 10-year NZGB and swap rates both rose by 7bps to 1.68b and 1.94% respectively, while 2-year rates were up 3bps. OIS rates were up 3-4bps, taking the probability of a 50bps hike in the OCR next week up to a better than 25% chance, even though most economists think that the RBNZ is expected to kick off the tightening cycle with just a 25bps move.

The economic calendar remains light with only second-tier releases. Today sees NZ electronic card spending and NAB's business survey. Tonight sees the release of Germany's ZEW survey and the NFIB small business survey in the US.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card spending total (m/m%)	Jul		1.6	10:45
AU	NAB business conditions	Jul		24	13:30
GE	ZEW survey expectations	Aug	55.0	63.3	21:00
US	NFIB small business opt.	Jul	102.0	102.5	22:00

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**		
Indicative overnight ranges (*)					Other FX			Major Indices				Price		
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day
NZD	0.6999	-0.2	0.6994	0.7026	CHF	0.9199	+0.6	S&P 500	4,438	+0.0	32.4	Oil (Brent)	69.15	-2.2
AUD	0.7338	-0.2	0.7330	0.7364	SEK	8.701	+0.4	Dow	35,137	-0.2	28.1	Oil (WTI)	66.69	-2.3
EUR	1.1744	-0.2	1.1737	1.1769	NOK	8.934	+0.5	Nasdaq	14,875	+0.3	35.1	Gold	1723.8	-2.1
GBP	1.3857	-0.1	1.3841	1.3895	HKD	7.782	+0.0	Stoxx 50	4,177	+0.1	28.4	HRC steel	1885.0	+0.8
JPY	110.28	+0.0	110.03	110.32	CNY	6.486	+0.1	FTSE	7,132	+0.1	18.2	CRB	211.7	-1.3
CAD	1.2569	+0.1			SGD	1.357	+0.2	DAX	15,745	-0.1	24.2	Wheat Chic.	725.0	-1.1
NZD/AUD	0.9538	+0.1			IDR	14,363	+0.1	CAC 40	6,813	+0.5	39.3	Sugar	18.47	-1.1
NZD/EUR	0.5960	+0.0			THB	33.47	+0.1	Nikkei	27,820	+0.3	24.6	Cotton	91.30	-1.4
NZD/GBP	0.5051	-0.0			KRW	1,144	+0.2	Shanghai	3,495	+1.1	3.4	Coffee	179.4	+1.9
NZD/JPY	77.18	-0.1			TWD	27.82	+0.1	ASX 200	7,538	+0.0	23.4	WM powder	3580.0	-0.3
NZD/CAD	0.8797	-0.0			PHP	50.39	-0.0	NZX 50	12,701	-0.5	8.7	<b>Australian Futures</b>		
NZ TWI	74.52	-0.0										3 year bond	99.66	0.00
												10 year bond	98.79	0.02

Interest Rates													
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Last	Last	Last			
USD	0.25	0.13	0.31	1.33	USD	1.32	0.02	NZGB 5 1/2 04/15/23	0.93	0.03	1 year	1.06	0.03
AUD	0.10	0.02	0.25	1.33	AUD	1.21	0.02	NZGB 2 3/4 04/15/25	1.19	0.04	2 year	1.27	0.03
NZD	0.25	0.65	1.27	1.94	NZD	1.68	0.06	NZGB 4 1/2 04/15/27	1.39	0.06	5 year	1.61	0.05
EUR	0.00	0.06	-0.49	-0.08	GER	-0.46	-0.00	NZGB 3 04/20/29	1.58	0.06	7 year	1.76	0.06
GBP	0.10	0.07	0.49	0.85	GBP	0.58	-0.03	NZGB 1 1/2 05/15/31	1.68	0.07	10 year	1.94	0.07
JPY	-0.05	-0.10	-0.03	0.04	JPY	0.02	0.00	NZGB 2 3/4 04/15/37	2.14	0.08	15 year	2.14	0.07
CAD	0.25	0.44	0.84	1.72	CAD	1.24	0.00	NZGB 1 3/4 05/15/41	2.40	0.07			

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

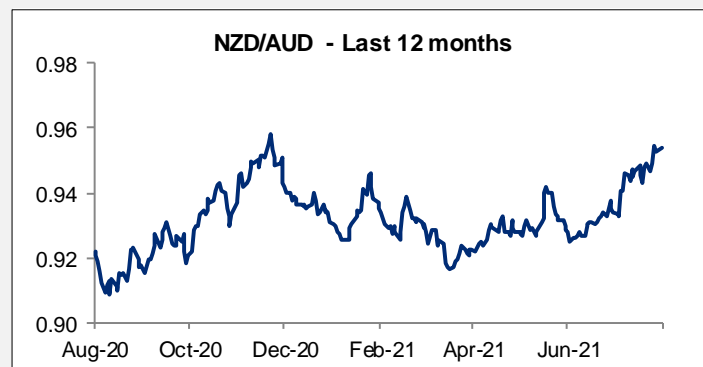
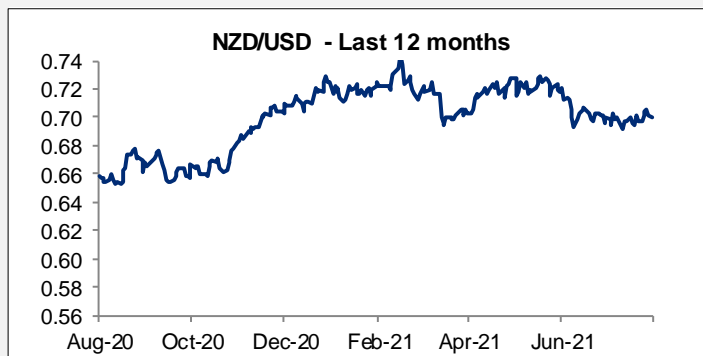
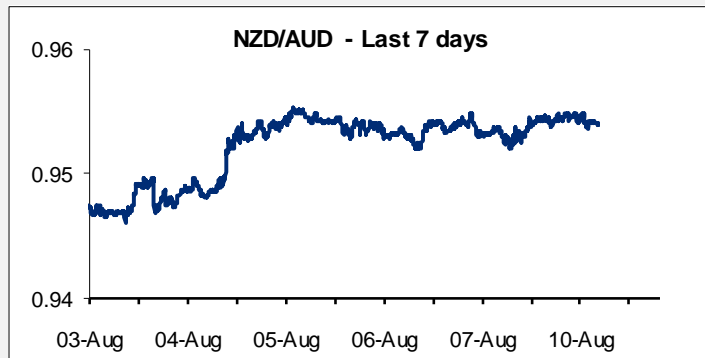
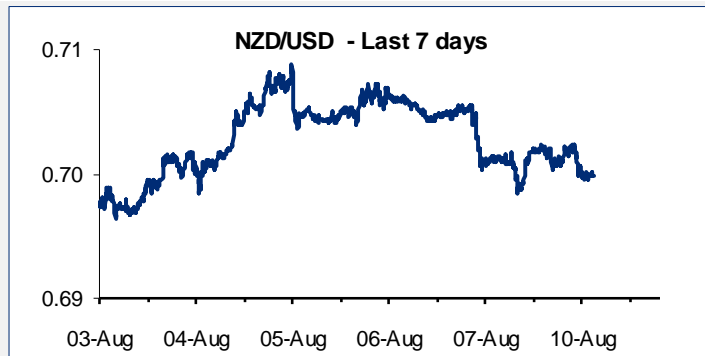
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:51

Source: Bloomberg

**NZD exchange rates**

10/08/2021 6:52 am		Prev. NY close
USD	0.6999	0.701
GBP	0.5051	0.5053
AUD	0.9538	0.9530
EUR	0.5960	0.5960
JPY	77.18	77.29
CAD	0.8797	0.8800
CHF	0.6438	0.6413
DKK	4.4320	4.4324
FJD	1.4581	1.4553
HKD	5.4466	5.4539
INR	51.98	51.98
NOK	6.2531	6.2310
PKR	114.84	114.35
PHP	35.27	35.33
PGK	2.4575	2.4579
SEK	6.0898	6.0752
SGD	0.9498	0.9497
CNY	4.5398	4.5447
THB	23.39	23.38
TOP	1.5619	1.5585
VUV	77.84	77.51
WST	1.8013	1.7934
XPF	71.17	70.61
ZAR	10.3204	10.2562



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.55	-1.25
3 Months	-7.09	-6.58
6 Months	-19.74	-18.74
9 Months	-36.61	-34.87
1 Year	-56.27	-54.27

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.61	-2.92
3 Months	-13.76	-12.66
6 Months	-35.58	-33.33
9 Months	-60.48	-56.79
1 Year	-87.86	-83.16

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