

11 August 2021



Events Round-Up

NZ: Card spending total (m/m%), Jul: 0.9 vs. 1.3 prev.

AU: NAB business conditions, Jul: 11 vs. 25 prev.

GE: ZEW survey expectations, Aug: 40.4 vs. 55.0 exp.

US: NFIB small business opt., Jul: 99.7 vs. 102.0 exp.

Good Morning

Against a backdrop of little fresh news, there is a hint of better risk sentiment, as global equity markets stretch to fresh record highs, US Treasury yields nudge up further, and commodity currencies recover overnight from losses during the NZ trading session. The NZD is back with a 0.70 handle.

Newsflow has been light and only second-tier economic data have been released, but that hasn't stopped global equity markets continuing their upward trend. The Euro Stoxx 600 index closed up 0.35% to a fresh record high. The S&P is currently up 0.2%, reaching a fresh record high as well. The Nasdaq index is struggling, down 0.4%, against a backdrop of a further push higher in US bond yields, with investors rotating back into the cyclical and less rate-sensitive sectors.

The US 10-year rate is up 2bps to 1.34%. its highest level in three weeks and showing a steady climb from mid last week from a low of 1.125%. The rise in rates likely reflects some re-positioning from what seemed like an outrageously low level, given the higher inflationary environment, and the market eyeing a tapering of QE announcement by the Fed that could come as soon as next month.

Scanning the news on COVID19, it still looks mostly bad, with rising hospitalisation rates across the US and capacity limits being reached in Texas and Florida, case numbers still growing in China, and case numbers exploding in a well-vaccinated country like Israel. Israel's government is rolling out booster shots to counter the reduced efficacy of the vaccines over time – the country was one of the earliest with its vaccination programme. Risk sentiment has managed to improve despite lingering concerns that the spread of the delta variant remains a threat to the global economic recovery.

As widely anticipated, the US Senate finally passed the infrastructure bill, worth about \$1 trillion with \$550b of

new spending, seen as a political win for President Biden, but it still faces some hurdles to pass in the House before being implemented. House Speaker Pelosi said she will not allow a vote on the bill in the House until the Senate has passed the broader \$3.5 trillion economic plan – good luck with that. This ongoing political football likely has months left to play out.

Germany's ZEW survey of investor expectations fell by more than expected. "Current conditions" improved by less than expected. The data are indicative of a slowing in growth momentum, with the series being a good leading indicator of the IFO expectations index in the current cycle. The US NFIB survey of small businesses showed softening confidence about the outlook. Labour shortages and persistent supply chain difficulties remain key handbrakes on growth, while businesses report being able to pass on higher costs to consumers.

In currency markets, the three best performing of the majors since the NZ close have been the NZD, CAD and AUD, supported by a rebound in commodity prices. Oil prices are up 2-3%. Yesterday's narrative was about concerns that the spread of the delta variant would crimp demand. Today's narrative is that investors are optimistic that oil demand can remain supported despite the virus backdrop! (The truth is that sometimes markets go up and sometimes they go down).

After hitting a low of 0.6969 yesterday afternoon, the NZD has recovered nicely and is back trading around the 0.70 mark. The AUD has recovered to 0.7350. The other majors show small movements, but JPY, EUR and GBP are all slightly weaker against the USD, so NZD crosses are all modestly higher.

In Australian and NZ economic data yesterday, NAB's Australian business survey showed falling confidence and conditions, driven by the lockdown in NSW and other regions. Of more interest was that the inflation components of the survey spanning costs, retail prices and wages showed further upside pressure. Lockdowns or not, we'd expect Australia to ultimately see the similar sort of inflationary pressure currently seen in NZ, and there is some evidence of this developing. NZ electronic card transactions remained on an upward trajectory, suggesting strong spending growth in Q2 following a very strong Q1.

The domestic rates market was fairly quiet. There remained some pay-side pressure at the short end of the

curve, with the 2-year swap rate up 2bps to 1.29%, ahead of next week's RBNZ MPS, while the 10-year rate was flat at 1.94%.

Tonight, the US CPI is the key economic release to watch. Monthly and annual figures are expected to moderate but the detail is the key. For example, some easing of COVID-related price spikes but broader price increases would not be seen as favourable by the bond market and any surprise here could have flow-on impacts for a range of markets.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Westpac consumer conf.	Aug		108.8	12:30
US	CPI (m/m%)	Jul	0.5	0.9	00:30
US	CPI (y/y%)	Jul	5.3	5.4	00:30
US	CPI ex food, energy (m/m%)	Jul	0.4	0.9	00:30
US	CPI ex food, energy (y/y%)	Jul	4.3	4.5	00:30

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	0.7007	+0.2	0.6975	0.7011	CHF	0.9228	+0.3	S&P 500	4,440	+0.2	32.1	Oil (Brent)	70.78	+2.5
AUD	0.7349	+0.2	0.7328	0.7356	SEK	8.714	+0.0	Dow	35,273	+0.5	26.9	Oil (WTI)	68.47	+3.0
EUR	1.1722	-0.1	1.1710	1.1741	NOK	8.916	-0.3	Nasdaq	14,793	-0.5	34.9	Gold	1728.6	+0.3
GBP	1.3841	-0.1	1.3828	1.3873	HKD	7.782	-0.0	Stoxx 50	4,188	+0.3	28.5	HRC steel	1883.0	-0.3
JPY	110.57	+0.3	110.37	110.60	CNY	6.486	-0.0	FTSE	7,161	+0.4	18.4	CRB	215.2	+1.7
CAD	1.2528	-0.4			SGD	1.359	+0.1	DAX	15,771	+0.2	24.3	Wheat Chic.	740.3	+2.1
NZD/AUD	0.9535	-0.0			IDR	14,383	+0.1	CAC 40	6,820	+0.1	38.9	Sugar	19.59	+6.1
NZD/EUR	0.5978	+0.3			THB	33.47	-0.0	Nikkei	27,888	+0.2	22.6	Cotton	92.74	+1.3
NZD/GBP	0.5062	+0.2			KRW	1,150	+0.5	Shanghai	3,530	+1.0	5.7	Coffee	185.1	+1.5
NZD/JPY	77.48	+0.5			TWD	27.84	+0.1	ASX 200	7,563	+0.3	23.2	WM powder	3550.0	-0.8
NZD/CAD	0.8778	-0.2			PHP	50.40	+0.0	NZX 50	12,764	+0.5	9.6	Australian Futures		
NZ TWI	74.60	+0.2										3 year bond	99.665	0.01
												10 year bond	98.79	0.00
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					
USD	0.25	0.13	0.32	1.35	USD	1.34	0.02	NZGB 5 1/2 04/15/23	0.96	0.03	1 year	1.08	0.02	
AUD	0.10	0.01	0.26	1.33	AUD	1.20	-0.01	NZGB 2 3/4 04/15/25	1.22	0.03	2 year	1.29	0.02	
NZD	0.25	0.67	1.29	1.94	NZD	1.70	0.01	NZGB 4 1/2 04/15/27	1.41	0.02	5 year	1.62	0.01	
EUR	0.00	0.06	-0.49	-0.08	GER	-0.46	0.00	NZGB 3 04/20/29	1.59	0.01	7 year	1.77	0.01	
GBP	0.10	0.07	0.50	0.85	GBP	0.59	0.01	NZGB 1 1/2 05/15/31	1.70	0.01	10 year	1.94	0.00	
JPY	-0.05	-0.10	-0.02	0.05	JPY	0.03	0.01	NZGB 2 3/4 04/15/37	2.15	0.01	15 year	2.14	0.00	
CAD	0.25	0.44	0.85	1.73	CAD	1.26	0.01	NZGB 1 3/4 05/15/41	2.41	0.01				

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

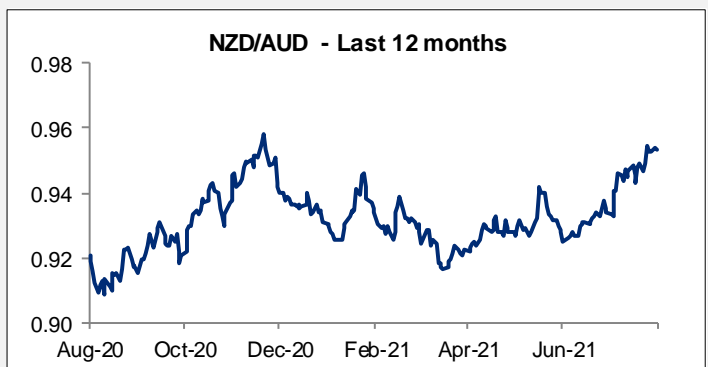
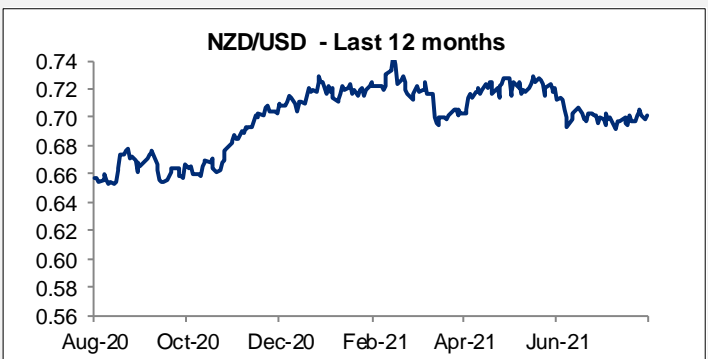
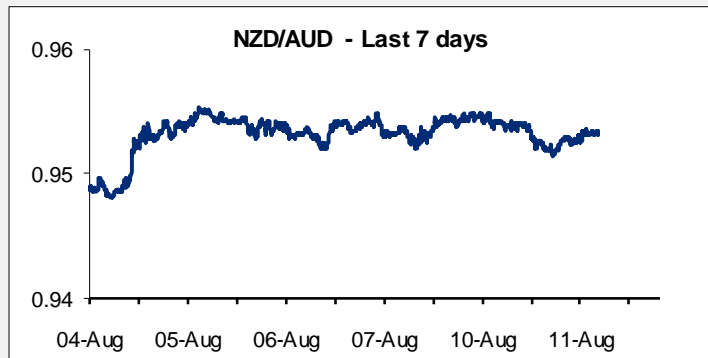
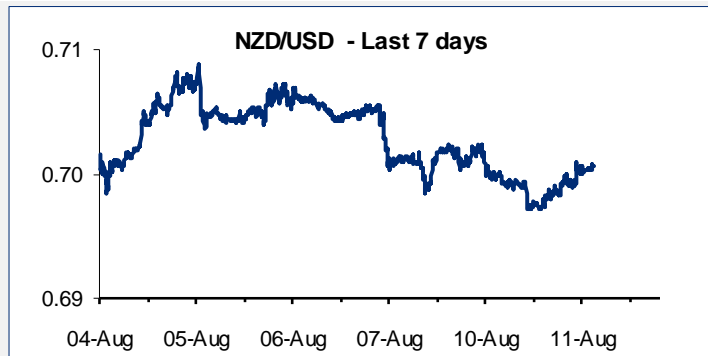
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:55

Source: Bloomberg

NZD exchange rates

11/08/2021 6:55 am		Prev. NY close
USD	0.7007	0.6993
GBP	0.5062	0.5050
AUD	0.9535	0.9536
EUR	0.5978	0.5958
JPY	77.48	77.13
CAD	0.8778	0.8795
CHF	0.6466	0.6434
DKK	4.4457	4.4313
FJD	1.4610	1.4575
HKD	5.4525	5.4432
INR	52.15	51.94
NOK	6.2477	6.2550
PKR	114.49	114.74
PHP	35.32	35.24
PGK	2.4586	2.4554
SEK	6.1062	6.0916
SGD	0.9523	0.9490
CNY	4.5447	4.5359
THB	23.44	23.37
TOP	1.5655	1.5606
VUV	77.83	77.78
WST	1.7922	1.8012
XPF	70.85	71.11
ZAR	10.3837	10.3362



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.25	-0.95
3 Months	-6.61	-6.09
6 Months	-19.45	-18.44
9 Months	-36.10	-34.10
1 Year	-55.74	-53.74

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.15	-2.56
3 Months	-13.15	-11.98
6 Months	-35.31	-33.16
9 Months	-59.83	-55.81
1 Year	-87.51	-82.84

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