

12 August 2021



Events Round-Up

AU: Westpac consumer conf., Aug: 104.1 vs. 108.8 prev.

CH: Aggregate financing (CNYb), Jul: 1060 vs. 1700 exp.

CH: New loans (CNYb), Jul: 1080 vs. 1200 exp.

US: CPI (m/m%), Jul: 0.5 vs. 0.5 exp.

US: CPI (y/y%), Jul: 5.4 vs. 5.3 exp.

US: CPI ex food, energy (m/m%), Jul: 0.3 vs. 0.4 exp.

US: CPI ex food, energy (y/y%), Jul: 4.3 vs. 4.3 exp.

Good Morning

For a change, the US CPI report didn't throw up any nasty surprises, seeing US Treasury yields push lower and with a strong bond auction adding to the downside pressure. The data drove broad-based weakness in the USD and the NZD has been one of the best performers, rising 0.6% overnight to 0.7050.

After a string of massive increases, US CPI inflation moderated in July, largely as expected, and a touch weaker at the core level, up 0.3% m/m and 4.3% y/y. This reflected much weaker price pressure in some of the "re-opening" components such as used cars, car rentals and airline fares, while food and energy components showed rising price pressure. At first glance, it supported the view that inflationary pressure is currently "transitory" although it is far too early to declare game over. This is just one month of data and, on the other side of the debate, core inflation of 0.33% per month (on unrounded figures) is still annualised inflation of over 4% if this rate is sustained, far too high for comfort.

The market took some solace in the data and the immediate market reaction was a fall in the USD and a 3bps fall in the US 10-year rate from a high of 1.37%. Following that, strong bidding was evident at the 10-year Treasury auction, with the cleared rate some 3bps below the prevailing level and indirect bidders (a proxy for foreign demand) at a record high 77.2% for the tenor, sending primary dealers scrambling for stock and driving yields down to as low as 1.30%. The market has since calmed down, currently 1.33%, down about 3bps from the NZ close.

There has been plenty of Fed-speak overnight, but none from the heavy hitters. Kansas City Fed President George, who sits on the hawkish side of the spectrum, argued for

reducing policy stimulus, saying "today's tight economy...certainly does not call for a tight monetary policy, but it does signal that the time has come to dial back the settings". Dallas Fed President Kaplan, who is also considered a hawk, said that he favours a plan for tapering bond purchases to be announced at the September FOMC meeting, and beginning tapering in October. The Fed's Barkin took a more centrist view, saying "we will get there in the next few months" in terms of meeting the condition for tapering bond purchases. Evans is aligned with that view, suggesting that he wasn't ready to support a tapering decision next month and he'd like to see a few more employment reports.

The next two key events for the bond market to focus on will be Fed Chair Powell's keynote speech at the Jackson Hole symposium later this month and the next payrolls report early September.

The USD weakened immediately after the CPI report and pushed down further after the Treasury auction. Movements haven't been particularly large though, with the BBDXY index down 0.2% for the day. Overnight gains for the JPY, EUR, CAD and GBP have been in the order of 0.2-0.3%. Both the NZD and AUD have outperformed with larger gains.

The NZD saw another weak local trading session but the broadly based fall in the USD has seen it trade up to a high of 0.7060 and it currently sits around 0.7045. The AUD met some resistance just below 0.7390. NZD crosses are all moderately higher. NZD/EUR broke up through 0.6000 to reach a three-month high.

In other news, China credit growth was much weaker than expected in June, running at its slowest pace in 17-months, a mixture of seasonal factors and some genuine slowdown in economic momentum. Earlier in the week, the PBoC reiterated that it would guide loans to grow "reasonably" and ensure the pace of credit expansion matches nominal economic growth. Unlike major developed central banks, the PBoC still has many levers it can draw on to ease monetary policy if desired.

The US Senate passed a \$3.5 trillion budget framework, which incorporates a wide range of social policies. The odds of the package passing the House in its current form are small, with a number of Democrats opposed to many facets of the package and this is likely to be another drawn out process.

Oil prices dipped after the White House called on OPEC to boost oil production, saying that the cartel's planned supply increases would not fully offset previous production cuts. Brent crude fell by nearly \$2 to just above USD69, but has since more than recovered, now up closer to USD71.50, up over 1% for the day.

Trading conditions in the domestic rates market remained quiet, ahead of next week's RBNZ MPS. Rates were 2-3bps higher across the swap and NZGB curves, largely reflecting global forces from the previous overnight session and some lingering payside pressure at the short end of the curve.

In the day ahead, the RBNZ's survey of expectations is expected to show rising inflation expectations, with the key 2-year ahead rate likely to push further into the top half of the 1-3% target range. Tonight, Q2 UK GDP data

should be a stonker, with the consensus expecting growth of 4.8% q/q, a big rebound coming out of a period of harsh lockdowns. Other releases are second-tier but include euro area industrial production, US jobless claims and US PPIs.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Food prices (m/m%)	Jul		1.4	10:45
NZ RBNZ 2-yr inflation expectations	Q3		2.05	15:00
UK GDP (q/q%)	Q2	4.8	-1.6	18:00
UK Industrial production (m/m%)	Jun	0.3	0.8	18:00
EC Industrial production (m/m%)	Jun	-0.2	-1.0	21:00
US Initial jobless claims (k)	7-Aug	375	385	00:30
US PPI ex food, energy (y/y%)	Jul	5.6	5.6	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		Last	Net Day	
NZD	0.7043	+0.5	0.6991	0.7060	CHF	0.9219	-0.0		S&P 500	4,445	+0.2	33.3	Oil (Brent)	71.48	+1.2
AUD	0.7374	+0.3	0.7323	0.7389	SEK	8.691	-0.3		Dow	35,462	+0.6	28.1	Oil (WTI)	69.28	+1.5
EUR	1.1740	+0.2	1.1706	1.1753	NOK	8.862	-0.7		Nasdaq	14,754	-0.2	36.8	Gold	1752.2	+1.4
GBP	1.3867	+0.2	1.3803	1.3888	HKD	7.779	-0.0		Stoxx 50	4,206	+0.4	26.2	HRC steel	1881.0	-0.2
JPY	110.45	-0.1	110.31	110.80	CNY	6.480	-0.1		FTSE	7,220	+0.8	17.3	CRB	216.7	+0.7
CAD	1.2507	-0.1			SGD	1.357	-0.2		DAX	15,826	+0.4	22.2	Wheat Chic.	736.5	-0.4
NZD/AUD	0.9551	+0.1			IDR	14,383	+0.1		CAC 40	6,858	+0.6	36.4	Sugar	19.47	-0.6
NZD/EUR	0.5999	+0.3			THB	33.14	-1.0		Nikkei	28,071	+0.7	22.9	Cotton	91.64	-0.1
NZD/GBP	0.5079	+0.3			KRW	1,156	+0.6		Shanghai	3,533	+0.1	6.4	Coffee	187.0	+1.0
NZD/JPY	77.79	+0.4			TWD	27.84	+0.0		ASX 200	7,584	+0.3	23.7	WM powder	3530.0	-0.6
NZD/CAD	0.8809	+0.4			PHP	50.41	+0.0		NZX 50	12,748	-0.1	10.9	Australian Futures		
NZ TWI	74.90	+0.3											3 year bond	99.665	0.00
													10 year bond	98.79	0.01

Interest Rates						
	Rates		Swap Yields		Benchmark 10 Yr Bonds	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day
USD	0.25	0.12	0.31	1.35	USD	1.34 -0.01
AUD	0.10	0.02	0.25	1.33	AUD	1.22 0.02
NZD	0.25	0.69	1.32	1.96	NZD	1.72 0.03
EUR	0.00	0.06	-0.50	-0.09	GER	-0.46 -0.01
GBP	0.10	0.07	0.49	0.84	GBP	0.57 -0.02
JPY	-0.05	-0.10	-0.02	0.06	JPY	0.04 0.01
CAD	0.25	0.44	0.84	1.74	CAD	1.26 -0.01

NZ Government Bonds				NZ Swap Yields		
	Last				Last	
NZGB 5 1/2 04/15/23	0.98	0.02		1 year	1.09	0.01
NZGB 2 3/4 04/15/25	1.24	0.02		2 year	1.32	0.03
NZGB 4 1/2 04/15/27	1.43	0.02		5 year	1.65	0.02
NZGB 3 04/20/29	1.62	0.03		7 year	1.79	0.02
NZGB 1 1/2 05/15/31	1.72	0.02		10 year	1.96	0.02
NZGB 2 3/4 04/15/37	2.17	0.02		15 year	2.17	0.02
NZGB 1 3/4 05/15/41	2.44	0.02				

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

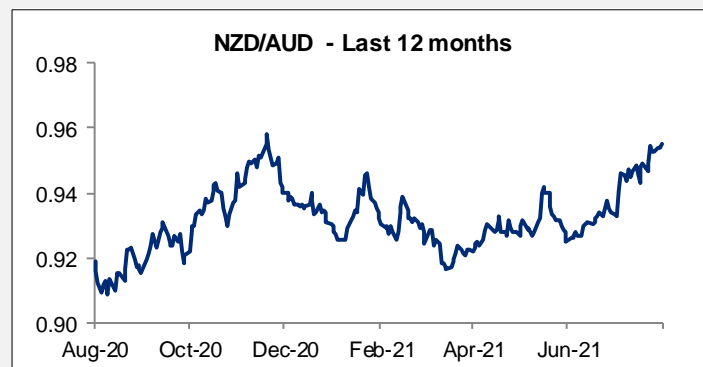
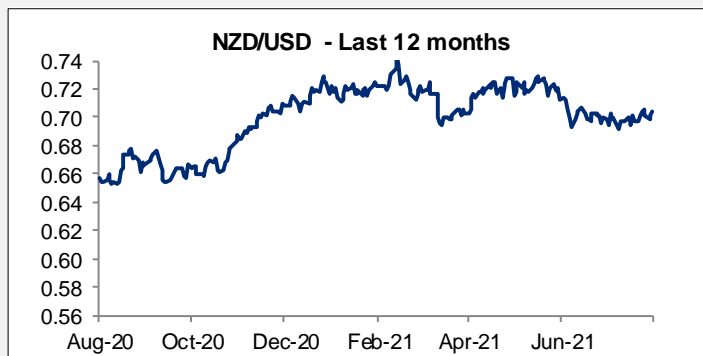
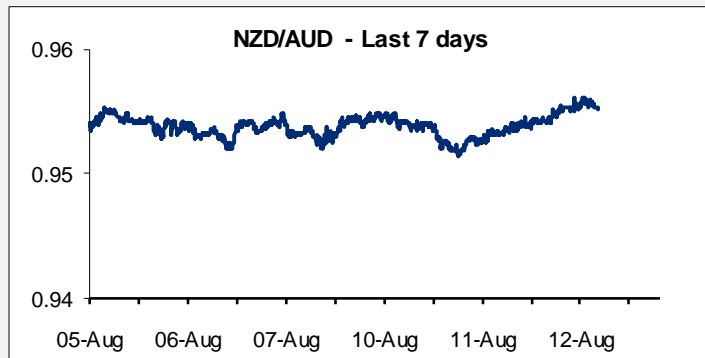
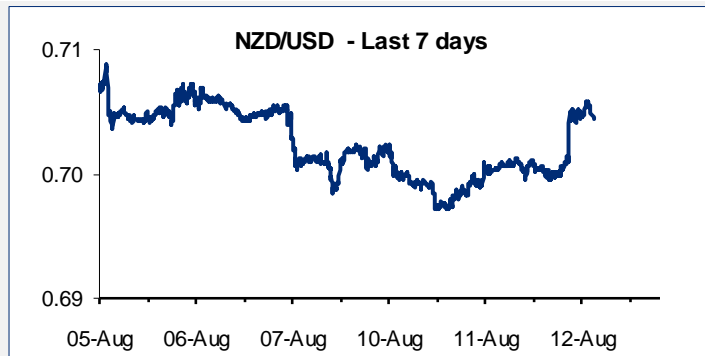
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:57

Source: Bloomberg

NZD exchange rates

12/08/2021 6:58 am		Prev. NY close
USD	0.7043	0.701
GBP	0.5079	0.5064
AUD	0.9551	0.9537
EUR	0.5999	0.5981
JPY	77.79	77.51
CAD	0.8809	0.8777
CHF	0.6493	0.6465
DKK	4.4619	4.4482
FJD	1.4691	1.4604
HKD	5.4787	5.4548
INR	52.43	52.18
NOK	6.2416	6.2551
PKR	115.22	114.54
PHP	35.50	35.33
PGK	2.4695	2.4596
SEK	6.1209	6.1109
SGD	0.9555	0.9529
CNY	4.5635	4.5466
THB	23.49	23.45
TOP	1.5682	1.5661
VUV	78.34	77.87
WST	1.8055	1.7922
XPF	71.62	70.88
ZAR	10.3159	10.3759



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.35	-1.05
3 Months	-7.05	-6.55
6 Months	-19.96	-18.96
9 Months	-37.34	-35.59
1 Year	-57.85	-55.85

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.28	-2.66
3 Months	-13.76	-12.70
6 Months	-36.26	-34.02
9 Months	-61.97	-58.29
1 Year	-90.63	-85.92

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