

13 August 2021



Events Round-Up

NZ: Food prices (m/m%), Jul: 1.3 vs. 1.4 prev.
 NZ: RBNZ 2yr inflation expectations, Q3: 2.27 vs. 2.05 prev.
 UK: GDP (q/q%), Q2: 4.8 vs. 4.8 exp.
 EC: Industrial production (m/m%), Jun: -0.3 vs. -0.2 exp.
 US: Initial jobless claims (k), 7-Aug: 375 vs. 375 exp.
 US: PPI ex food & energy (y/y%), Jul: 6.2 vs. 5.6 exp.

Good Morning

Markets have been quiet overnight, with little in the way of economic data and the Northern Hemisphere summer holidays now in fully swing. The US 10-year rate has pushed up to near a one-month high while the USD and equity markets are little changed. The NZD and AUD have reversed their post-US CPI moves higher and are down 0.6% over the past 24 hours, with the NZD back below 0.70. There was plenty of second-tier NZ data released yesterday, all pointing in the direction of the RBNZ getting a hurry on with raising the OCR.

There's not too much to discuss in terms of market moves overnight. The S&P500, NASDAQ and EuroStoxx indexes are all around 0.2%-0.3% higher amidst tight trading ranges. The US 10-year rate made a one-month high a few hours ago and is trading around 1.36% as we write this. The US 10-year rate has now fully reversed its fall from the previous night after the US CPI release and strong 10-year Treasury bond auction. In currencies, the EUR and JPY are unchanged while the Bloomberg USD index is up 0.1%.

Economic data overnight hasn't moved the needle for the market. US initial jobless claims fell slightly, to near its post-Covid lows. US PPI inflation was higher than expected, and indicative of intense cost pressures for businesses, but the market is always much more interested in CPI inflation, which was released the previous night.

Supply chain disruptions are a well understood driver of current inflation pressures. On that front, Bloomberg reported that China had shut down a terminal which accounts for around a quarter of business at the world's third busiest container ship port after a Covid-19 case was discovered. This is just a reminder that any easing in supply chain constraints will likely be a drawn-out process.

UK GDP was a stonker, rising 4.8% in Q2 (an almost 20% annualised pace of growth), matching the market's expectations. The impressive growth rate reflects, in part, just how big the downturn in the UK economy was last year. The GBP has, alongside the NZD and AUD, been one of the weaker currencies overnight, dropping 0.5% to 1.38.

In Australia, Canberra (and the state of ACT) has entered a snap 7-day lockdown after a community Covid case was detected. Meanwhile, cases in NSW show no signs yet of letting up, with 345 recorded yesterday. Here in New Zealand, PM Ardern outlined the government's broad strategy for reopening the borders yesterday, with the plan that there will be a phased reopening from Q1 next year, after everyone has been offered vaccination.

The AUD has underperformed over the past 24 hours and is down 0.6%, to 0.7335, completely erasing its post-US CPI gains. The NZD has followed a similar path and has fallen back below the 0.70 mark, down 0.6% on the day. The NZD/AUD cross has been little changed.

The RBNZ's Survey of Expectations was released yesterday, with the key 2-year ahead inflation expectations series pushing up to 2.27%, its highest level since 2014. The increase in inflation expectations was not as pronounced as some other measures, such as that from the ANZ Business Survey, but it is now firmly in the top-half of the RBNZ's 1-3% target range.

The NZ 2-year swap rate made a fresh, post-2019 high yesterday. It was up 3bps at one stage, before reversing lower into the market close, eventually closing back at 1.32%. The intraday pullback suggests investors were potentially expecting a larger increase in the RBNZ's inflation expectations series. The yield curve remains under flattening pressure, with a fall in long-term Australian rates pulling down the 10-year NZ swap rate by 2bps, to 1.95%. The yield curve, as measured by the difference between the 2-year and 10-year swap rates, has flattened an incredible 80bps in little over two months, to now be 63bps. Yield curves typically flatten into tightening cycles, although the recent move in New Zealand has been particularly aggressive compared to the leadup to other post-GFC tightening cycles.

The housing market remains very strong and is yet another indicator which is outperforming the RBNZ's expectations. Yesterday's REINZ data showed annual house price growth of 30.6%, a new record, while the stock of listings was the

lowest ever and the number of days to sell fell to its lowest since 2016. On the inflation side, we nudged up our NZ CPI forecast yesterday, after the release of food price data, and now expect the annual rate of inflation to hit 4.2% in Q3, well above the top of RBNZ's target range.

It should be a reasonably quiet session ahead. The NZ Manufacturing PMI, which was sitting at a very strong 60.7 in June, is released this morning. Tonight, there is just the University of Michigan consumer confidence index, with some attention likely to be on the 5 to 10-year inflation expectations series.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Jul		60.7	10:30
NZ	Net Migration	Jun		1182	10:45
US	U. of Mich. Sentiment	Aug P	81.2	81.2	02:00
US	U. of Mich. 5-10 Yr Inflation	Aug P		2.8	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	0.6996	-0.6	0.6996	0.7041	CHF	0.9240	+0.2	S&P 500	4,456	+0.2	31.8	Oil (Brent)	71.23	-0.3
AUD	0.7333	-0.6	0.7333	0.7370	SEK	8.691	+0.1	Dow	35,455	-0.1	26.7	Oil (WTI)	68.99	-0.4
EUR	1.1731	-0.1	1.1724	1.1748	NOK	8.851	-0.1	Nasdaq	14,805	+0.3	34.4	Gold	1749.0	-0.1
GBP	1.3800	-0.5	1.3795	1.3879	HKD	7.782	+0.0	Stoxx 50	4,226	+0.5	25.7	HRC steel	1880.0	-0.1
JPY	110.47	+0.0	110.32	110.55	CNY	6.480	+0.0	FTSE	7,193	-0.4	14.5	CRB	216.9	+0.1
CAD	1.2530	+0.2			SGD	1.358	+0.1	DAX	15,938	+0.7	22.0	Wheat Chic.	762.0	+3.1
NZD/AUD	0.9540	-0.1			IDR	14,383	+0.0	CAC 40	6,882	+0.2	35.7	Sugar	19.54	+0.4
NZD/EUR	0.5964	-0.6			THB	33.12	-0.1	Nikkei	28,015	-0.2	20.5	Cotton	93.77	+2.5
NZD/GBP	0.5070	-0.1			KRW	1,161	+0.4	Shanghai	3,525	-0.2	6.1	Coffee	189.6	+1.3
NZD/JPY	77.28	-0.6			TWD	27.81	-0.1	ASX 200	7,588	+0.1	24.6	WM powder	3515.0	-0.4
NZD/CAD	0.8766	-0.4			PHP	50.40	-0.0	NZX 50	12,682	-0.5	10.3	Australian Futures		
NZ TWI	74.51	-0.5										3 year bond	99.68	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	Last			
USD	0.25	0.12	0.32	1.37	USD	1.37	0.04	NZGB 5 1/2 04/15/23	0.98	0.00	1 year	1.09	-0.01	
AUD	0.10	0.01	0.24	1.33	AUD	1.19	-0.04	NZGB 2 3/4 04/15/25	1.23	-0.00	2 year	1.32	0.00	
NZD	0.25	0.68	1.32	1.95	NZD	1.70	-0.02	NZGB 4 1/2 04/15/27	1.42	-0.01	5 year	1.63	-0.01	
EUR	0.00	0.06	-0.50	-0.09	GER	-0.46	0.00	NZGB 3 04/20/29	1.60	-0.02	7 year	1.77	-0.02	
GBP	0.10	0.07	0.49	0.86	GBP	0.60	0.03	NZGB 1 1/2 05/15/31	1.70	-0.01	10 year	1.95	-0.02	
JPY	-0.04	-0.10	-0.02	0.05	JPY	0.03	-0.01	NZGB 2 3/4 04/15/37	2.16	-0.02	15 year	2.15	-0.02	
CAD	0.25	0.44	0.83	1.73	CAD	1.25	-0.01	NZGB 1 3/4 05/15/41	2.42	-0.02				

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

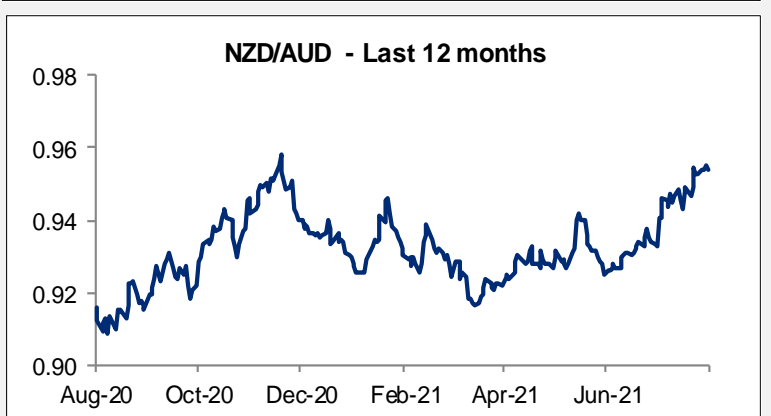
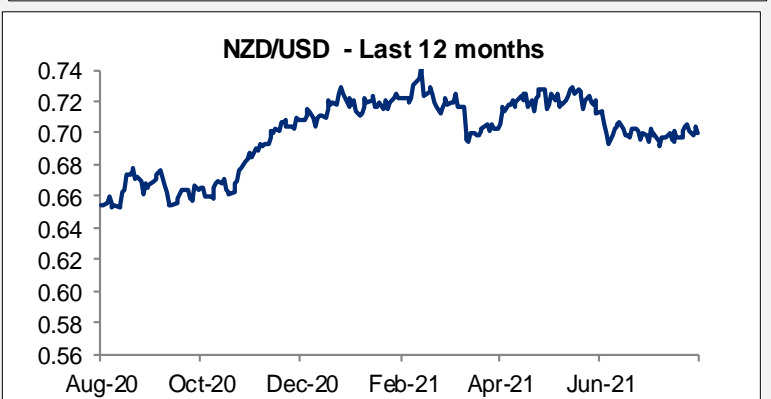
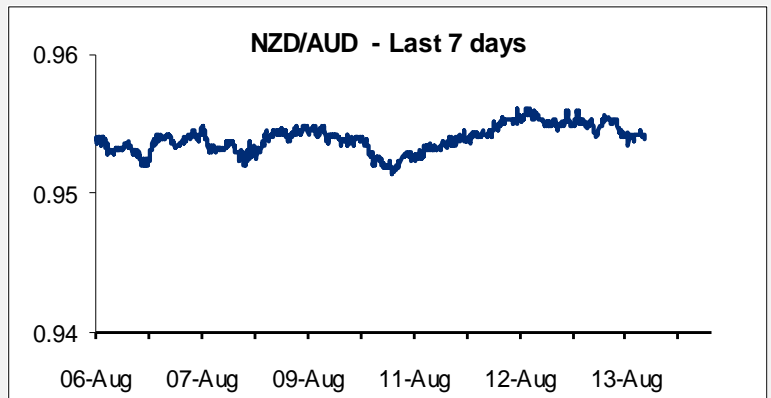
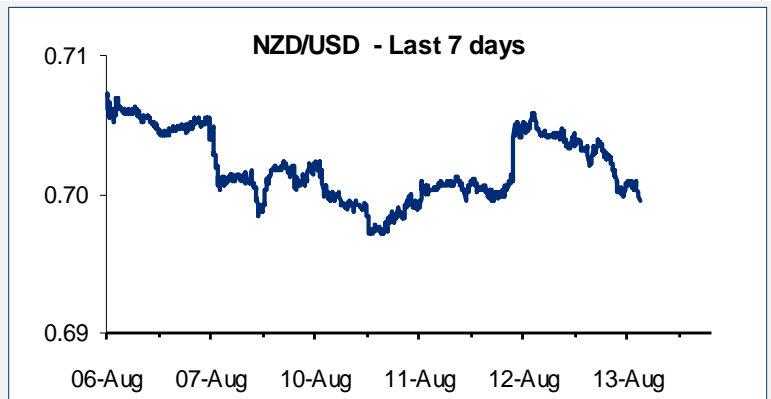
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:50

Source: Bloomberg

NZD exchange rates

13/08/2021	6:50 a.m.	Prev. NY close
USD	0.6996	0.7042
GBP	0.5070	0.5078
AUD	0.9540	0.9550
EUR	0.5964	0.5999
JPY	77.28	77.76
CAD	0.8766	0.8805
CHF	0.6464	0.6492
DKK	4.4350	4.4614
FJD	1.4572	1.4659
HKD	5.4441	5.4778
INR	51.95	52.42
NOK	6.1919	6.2382
PKR	114.45	115.07
PHP	35.26	35.50
PGK	2.4677	2.4691
SEK	6.0802	6.1156
SGD	0.9502	0.9552
CNY	4.5331	4.5629
THB	23.33	23.56
TOP	1.5679	1.5680
VUV	77.56	78.25
WST	1.7939	1.8017
XPF	71.10	71.53
ZAR	10.3480	10.3252



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.51	-1.19
3 Months	-6.79	-6.28
6 Months	-19.05	-18.05
9 Months	-35.82	-33.90
1 Year	-55.37	-53.37

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.50	-2.88
3 Months	-13.47	-12.44
6 Months	-35.17	-33.04
9 Months	-60.43	-56.47
1 Year	-88.06	-83.67

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