

16 August 2021



Events Round-Up

NZ: Manufacturing PMI, Jul: 62.6 vs. 60.7 prev.

NZ: Net migration, Jun: 897 vs. 881 prev.

US: University of Michigan consumer sentiment, Aug: 70.2 vs. 81.2 exp.

US: Uni. Michigan 5-10yr inflation expectations, Aug: 3.2 vs. 2.8 prev.

Good Morning

The US 10-year rate and USD fell sharply on Friday after a shockingly weak US consumer confidence survey. Market moves were likely exacerbated by thin liquidity and lower-than-usual market participation amidst the Northern Hemisphere summer holidays. Equity markets nudged higher, presumably helped by the fall in bond yields. The NZD finished the week on a high, back around the 0.7040 mark, although it remains stuck within its broader trading range. The RBNZ MPS is the highlight of the week ahead, with the OCR set to be raised for the first time since 2014.

The University of Michigan consumer confidence index wouldn't normally be a market mover, but it was on Friday. The headline confidence number fell a huge 13%, from 81.2 to 70.2, its lowest level since 2011 and lower even than it was in April last year during the initial Covid lockdowns. This was the seventh largest percentage fall in the headline index over the past 50 years, with the only bigger monthly falls in recent times being April 2020 (Covid) and October 2008 (GFC). Most of the weakness in confidence came from the Expectations component, which dropped from 79 to 65.2, with a lesser fall in consumers' assessment of current conditions (77.9 vs. 84.5 prev.).

The survey report attributed the weakness to concerns about the spread of the Delta variant (perhaps some realisation that Covid is not going away in a hurry), with higher inflation another factor weighing on confidence (5-10 year inflation expectations rose back to cycle highs, at 3%). Historically, consumer confidence tends to be correlated to movements in the stock market (which are at record highs) and the labour market conditions (job openings are at a record high), but these factors appear to have been swamped by the former concerns, at least in this month's preliminary survey release.

Does the survey signal an imminent turn in the US economy? We doubt it. It could be the case that the sharp

fall in confidence is (at least partially) reversed next month, especially if the current Delta wave in the US starts to subside, as it has done in the UK. The other main measure of US consumer confidence, the Conference Board survey, is near record highs and the fundamentals for the US consumer are robust, with strong employment growth, rising asset prices and huge savings balances built up over the past year or so. But it will certainly focus attention on the US retail sales data release on Wednesday night, as well as the Conference Board survey in early September.

US rates experienced a large fall on the back of the confidence number, with the US 10-year rate falling 8bps on Friday, to 1.28%, amidst a bull flattening move. Summer holiday conditions in markets likely exacerbated the moves, with the US 10-year futures contract recording one of its lowest daily trading volumes over the past few months. The yield on the Australian 10-year bond future is around 4bps lower than at the time of the NZ market close on Friday, which will set the tone for the local rates market this morning, with the NZ curve likely to resume flattening (the 10-year NZ swap rate was up 3bps on Friday).

The USD, which was already on the back foot during the London morning session, fell further after the data release. The Bloomberg USD index was down 0.5%, its biggest daily fall in a month, with around half that move coming after the confidence data. The BBDXY has been rangebound for the past two months and that looks set to continue to the near-term.

Except for the CAD (+0.1%), it was a relatively uniform move higher in most G10 currencies against the USD, with gains of 0.4%-0.8%. The NZD was up 0.6%, the same as the EUR, and ended the week around 0.7040. Like the USD, the NZD has been rangebound for the past two months, with key resistance sitting around 0.71. The NZD/AUD cross continues to creep higher, ending just above 0.9550, its highest close since early December.

Equity markets shrugged off the fall in US consumer confidence, with all three of the key US indexes eking out small gains, of between 0.05% and 0.2%. Alongside very strong corporate earnings, low bond yields continue to provide ongoing support to the equity market, helping to sustain what are relatively high valuations (in terms of measures such as the P/E ratio) on a historical basis. Trading volumes were also extremely light in the stock

market, with the S&P500 recording its lowest daily trading volume of 2021.

In weekend developments, the news has been centred on the Taliban’s imminent return to power in Afghanistan, with the Afghan President fleeing the country and Western countries evacuating diplomatic staff from Kabul. While there are longer-term geopolitical risks associated with this, we suspect there won’t be much immediate impact on markets. In Australia, New South Wales has recorded more than 400 new cases on each of the past two days, with the Premier extending lockdown to all remaining parts of the state and increasing enforcement of the rules.

Turning to domestic data, the Manufacturing PMI, released on Friday, increased to 62.6, its third highest reading since the survey started in 2002. The employment component was the highest on record, at 58.3, yet another indicator pointing to the RBNZ having met (if not exceeded) its mandate for maximum sustainable employment.

That brings us to the week ahead, where the highlight, at least domestically, is the RBNZ MPS on Wednesday. We are expecting a 25bp increase in the OCR, which would be the first rate hike from the RBNZ since 2014. The market ended last week with August priced at 0.55%, implying around a 20% probability that the RBNZ kicks off the tightening cycle with a 50bp move, something we think is unlikely, albeit can’t be ruled out. Assuming the RBNZ raises the OCR by 25bps, the focus is likely be on the Bank’s guidance around the OCR outlook, including what is published for the forecast OCR track. The last OCR track, from the May MPS, showed hikes starting in mid-2022 with the OCR reaching 1.78% at the end of the forecast horizon,

in mid-2024. The OCR track will clearly be brought forward, and the market will be watching both what it implies for the chance of rate hikes at the upcoming two meetings in October and November, as well as the level at which is peaks. It’s possible the peak in the OCR could be above 1.9%, which is the RBNZ’s most recent estimate of the ‘neutral OCR’, if the RBNZ deemed that restrictive settings will likely be required to get inflation sustainably back to 2%.

Chinese activity data for July are released today with the market likely to be on the watch for any signs of virus-related softening, although it may be too early to see this. Later in the week, Australia is expected to record a fall in employment in July (consensus -46.2k) amidst the latest lockdowns while the FOMC minutes and US retail sales are also released. The Norges Bank is expected to keep rates on hold at its meeting this week but green light a rate rise next month. The market expects the Norges Bank to be the second developed market central bank to start raising rates, after the RBNZ this week.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Performance Services Index	Jul		58.6	10:30
JN	GDP (q/q%)	2Q P	0.1	-1	11:50
CH	Retail Sales (y/y%)	Jul	10.9	12.1	14:00
CH	Industrial Production (y/y%)	Jul	7.9	8.3	14:00
CH	Fixed Asset Investment (y/y%)	Jul	11.3	12.6	14:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Other FX				Major Indices			Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day		Last	Net Day	
NZD	0.7042	+0.6	0.6999	0.7048	CHF	0.9156	-0.8		S&P 500	4,468	+0.2	32.4	Oil (Brent)	70.59	-1.5
AUD	0.7370	+0.5	0.7334	0.7381	SEK	8.643	-0.6		Dow	35,515	+0.0	27.3	Oil (WTI)	68.44	-1.5
EUR	1.1797	+0.6	1.1730	1.1805	NOK	8.799	-0.6		Nasdaq	14,823	+0.0	34.2	Gold	1775.2	+1.6
GBP	1.3866	+0.4	1.3791	1.3875	HKD	7.783	+0.0		Stoxx 50	4,230	+0.1	28.0	HRC steel	1880.0	+0.0
JPY	109.59	-0.7	109.55	110.37	CNY	6.477	-0.0		FTSE	7,219	+0.4	18.5	CRB	217.0	+0.0
CAD	1.2515	-0.1			SGD	1.355	-0.2		DAX	15,977	+0.3	23.8	Wheat Chic.	774.3	+1.3
NZD/AUD	0.9555	+0.1			IDR	14,388	+0.0		CAC 40	6,896	+0.1	39.0	Sugar	19.95	+2.9
NZD/EUR	0.5969	+0.0			THB	33.30	+0.7		Nikkei	27,977	-0.1	20.1	Cotton	95.21	+1.8
NZD/GBP	0.5079	+0.1			KRW	1,169	+0.7		Shanghai	3,516	-0.2	4.6	Coffee	185.8	-2.1
NZD/JPY	77.17	-0.2			TWD	27.84	+0.1		ASX 200	7,629	+0.5	24.5	WM powder	3505.0	-0.3
NZD/CAD	0.8813	+0.5			PHP	50.47	+0.1		NZX 50	12,764	+0.6	11.5	Australian Futures		
NZ TWI	74.85	+0.4											3 year bond	99.69	0.02
													10 year bond	98.83	0.03
Interest Rates					NZ Government Bonds				NZ Swap Yields						
	Rates				Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Net Day	Last	Net Day	Last	Net Day	Last	Net Day	
USD	0.25	0.12	0.30	1.28	USD	1.28	-0.08		NZGB 5 1/2 04/15/23	1.00	0.02		1 year	1.10	0.01
AUD	0.10	0.02	0.24	1.32	AUD	1.22	0.03		NZGB 2 3/4 04/15/25	1.26	0.03		2 year	1.33	0.02
NZD	0.25	0.66	1.33	1.98	NZD	1.73	0.03		NZGB 4 1/2 04/15/27	1.45	0.03		5 year	1.66	0.03
EUR	0.00	0.06	-0.50	-0.10	GER	-0.47	-0.01		NZGB 3 04/20/29	1.63	0.03		7 year	1.80	0.03
GBP	0.10	0.07	0.48	0.84	GBP	0.57	-0.03		NZGB 1 1/2 05/15/31	1.73	0.03		10 year	1.98	0.03
JPY	-0.04	-0.10	-0.02	0.05	JPY	0.03	0.00		NZGB 2 3/4 04/15/37	2.19	0.03		15 year	2.19	0.04
CAD	0.25	0.44	0.81	1.66	CAD	1.19	-0.07		NZGB 1 3/4 05/15/41	2.45	0.03				

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

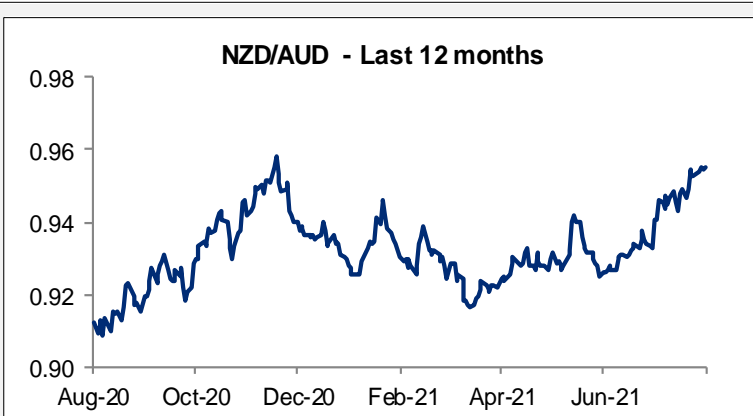
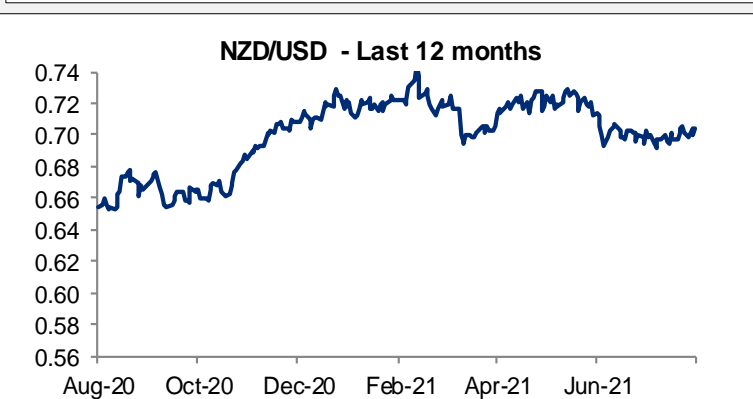
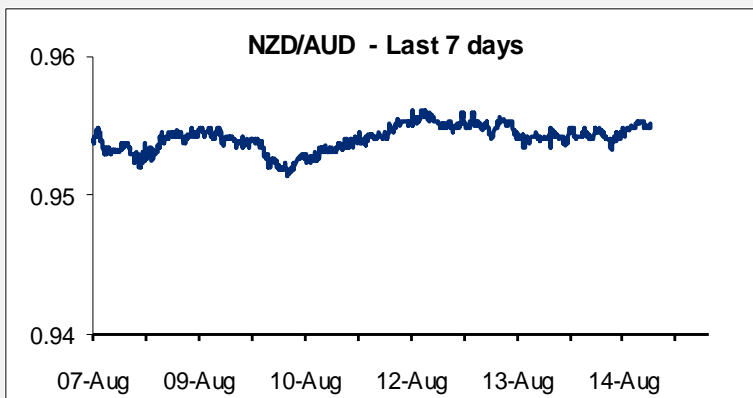
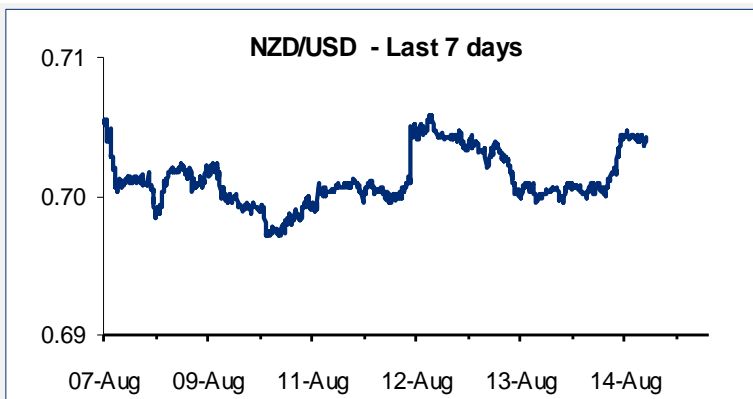
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: New York close

Source: Bloomberg

NZD exchange rates

14/08/2021	NY close	Prev. NY close
USD	0.7042	0.7002
GBP	0.5079	0.5071
AUD	0.9555	0.9546
EUR	0.5969	0.5969
JPY	77.17	77.31
CAD	0.8813	0.8771
CHF	0.6448	0.6465
DKK	4.4386	4.4395
FJD	1.4732	1.4649
HKD	5.4807	5.4485
INR	52.29	51.99
NOK	6.1959	6.1985
PKR	115.20	114.41
PHP	35.54	35.29
PGK	2.4709	2.4698
SEK	6.0860	6.0853
SGD	0.9542	0.9507
CNY	4.5614	4.5369
THB	23.48	23.35
TOP	1.5677	1.5650
VUV	78.27	77.50
WST	1.7913	1.7905
XPF	71.43	71.18
ZAR	10.3762	10.3502



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.63	-1.34
3 Months	-6.94	-6.46
6 Months	-19.29	-18.29
9 Months	-36.18	-34.18
1 Year	-56.20	-54.20

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.67	-3.02
3 Months	-13.68	-12.64
6 Months	-35.36	-33.20
9 Months	-60.59	-56.42
1 Year	-89.02	-84.18

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