

17 August 2021



Events Round-Up

NZ: Performance of services index, Jul: 57.9 vs. 58.4 prev.

JN: GDP (q/q%), Q2: 0.3 vs. 0.1 exp.

CH: Retail sales (y/y%), Jul: 8.5 vs. 10.9 exp.

CH: Industrial production (y/y%), Jul: 6.4 vs. 7.9 exp.

CH: Fixed asset investment (y/y%), Jul: 10.3 vs. 11.3 exp.

US: Empire manufacturing, Aug: 18.3 vs. 28.5 exp.

Good Morning

Markets have kicked off the new week on a cautious note, following weaker economic data in China amidst linger concerns about the spread of the delta variant of COVID19. Equity markets are mostly weaker, the US 10-year rate is down 2bps, oil prices are lower and commodity currencies have underperformed. Throughout, the NZD has managed to keep its head above 0.70.

Monthly China activity data for July on retail sales, industrial production and investment were universally weaker than expected, not helped by the spread of the delta variant of COVID19, which has seen renewed lockdowns across various regions, flooding in central China and the global chip shortage. The data follows weaker indicators across South-East Asia and the plunge in US consumer sentiment on Friday, adding to the picture that the global economic recovery has lost some significant momentum.

Near-term growth headwinds are likely to continue, with the spread of the delta strain still evident across a large part of the world. Furthermore, reports of supply chain blockages are increasing, as factories in South East Asia, notably Vietnam, struggle to maintain production. The partial shutdown of the world's third busiest port in Ningbo-Zhoushan after a COVID outbreak has added to global shipping difficulties.

Overnight, a much weaker Empire manufacturing survey in the US added to the cautious backdrop. The drop in the NY region manufacturing index in August was significant, but it followed an inexplicable rise the previous month so not too much should be read into the survey and, indeed, the survey is usually ignored by the market.

On a slightly more positive note, Japan avoided a double-dip recession, showing growth of 0.3% q/q in Q2. However,

the spread of the delta variant remains a significant hurdle to further progress. Tokyo's Governor warned that the situation in the city was at "disaster level", with new daily cases rising to a record high of 5773, quadrupling in three weeks.

The softer economic backdrop has seen slightly lower risk appetite to kick off the week. Global equity markets are mostly weaker. Off its record close on Friday, the S&P500 fell as much as 0.7% early in the session, although has steadily recovered since and as we go to print has pushed into positive territory. The Nasdaq index is currently down 0.4%.

The US 10-year Treasury yield has traded a 1.22-1.28%, and is currently down 2bps for the day at 1.25%. The WSJ has published an article on "Fed Officials Weigh Ending Asset Purchases by Mid-2022", arguing that a faster taper would allow flexibility to raise interest rates sooner than currently anticipated if the economy makes rapid progress towards the Fed's goals. The report argues that the economy is in a very different position to the previous taper cycle in 2014. The market looks to have ignored the report, as it simply compiles quotes from a range of Fed Presidents, none of which are the heavy hitters.

Reflecting the cautious economic backdrop, oil prices are down 1-1½%, copper prices are down 1½% and commodity currencies have underperformed. The NZD, AUD and CAD are all down 0.4-0.5%. Of that lot, only the NZD doesn't have any domestic headwinds, with further lockdowns across Australia not helping the AUD and the weekend announcement of a snap election in Canada called by Prime Minister Trudeau two years ahead of schedule adding some uncertainty around the CAD.

The NZD has trended lower since the open yesterday, and currently trades only slightly above its low for the day just over 0.7010. The AUD found some support around 0.7320. NZD/AUD made a fresh eight-month high just over 0.9590, before retreating to 0.9560. Last month we revised our central projection for the cross to 0.96 over coming months, consistent with the new higher trading range possibly extending up to as high as 0.98. For that to happen, we'll first need to break the 0.96 resistance level, which was the peak back in December.

The outperformance of safe-havens, sees USD/JPY down 0.3% to 109.20 and NZD/JPY down 0.7% to 76.6. EUR and GBP are slightly lower against the USD.

The domestic bond market saw a flattening bias yesterday, with longer term rates dragged down by global forces, while short-dated rates were higher as the RBNZ looks to kick off a tightening cycle this week. Against the backdrop of softer global data, NZ's performance of services index showed the service sector continuing to expand at a rapid pace, underpinned by strong demand. The 10-year NZGB fell by 2bps to 1.71%. The swaps market showed a rise of 2-3bps across the curve, with the 10-year rate hitting the 2% mark.

On the economic calendar the key release ahead is US retail sales, expected to be on the soft side, while expect to see some soundbites from Fed Chair Powell as he hosts a town hall discussion with educators.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA minutes of Aug. meeting	Aug			13:30
UK	Unemployment rate (%)	Jun	4.8	4.8	18:00
UK	Employment change (3m/3m)	Jun	88	25	18:00
US	Retail sales advance (m/m%)	Jul	-0.2	0.6	00:30
US	Retail sales ex auto, gas (m/m%)	Jul	0.0	1.1	00:30
US	Industrial production (m/m%)	Jul	0.5	0.4	01:15
US	NAHB housing market index	Aug	80	80	02:00
US	Powell hosts town hall discussion with educators				05:30

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	0.7015	-0.4	0.7011	0.7037	CHF	0.9121	-0.4	S&P 500	4,467	-0.0	32.4		Oil (Brent)	69.53	-1.5
AUD	0.7335	-0.5	0.7319	0.7344	SEK	8.653	+0.1	Dow	35,560	+0.1	27.3		Oil (WTI)	67.27	-1.7
EUR	1.1778	-0.2	1.1768	1.1793	NOK	8.828	+0.3	Nasdaq	14,773	-0.3	34.1		Gold	1786.5	+0.6
GBP	1.3841	-0.2	1.3828	1.3878	HKD	7.785	+0.0	Stoxx 50	4,202	-0.6	27.2		HRC steel	1895.0	+0.8
JPY	109.25	-0.3	109.11	109.45	CNY	6.475	-0.0	FTSE	7,154	-0.9	17.5		CRB	216.0	-0.5
CAD	1.2572	+0.4			SGD	1.356	+0.1	DAX	15,926	-0.3	23.4		Wheat Chic.	775.5	+0.2
NZD/AUD	0.9564	+0.1			IDR	14,373	-0.1	CAC 40	6,839	-1.0	37.8		Sugar	20.03	+0.4
NZD/EUR	0.5956	-0.3			THB	33.39	+0.3	Nikkei	27,523	-1.6	19.2		Cotton	94.85	-0.7
NZD/GBP	0.5068	-0.2			KRW	1,165	-0.4	Shanghai	3,517	+0.0	2.3		Coffee	186.3	+0.3
NZD/JPY	76.64	-0.7			TWD	27.84	+0.0	ASX 200	7,582	-0.6	24.8		WM powder	3505.0	+0.0
NZD/CAD	0.8819	+0.1			PHP	50.64	+0.3	NZX 50	12,720	-0.3	9.0		Australian Futures		
NZ TWI	74.65	-0.3											3 year bond	99.72	0.03
													10 year bond	98.85	0.02
Interest Rates								NZ Government Bonds				NZ Swap Yields			
	Rates				Benchmark 10 Yr Bonds				Last				Last		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day								
USD	0.25	0.12	0.29	1.26	USD	1.25	-0.02	NZGB 5 1/2 04/15/23	1.02	0.02		1 year	1.12	0.02	
AUD	0.10	0.02	0.22	1.29	AUD	1.16	-0.06	NZGB 2 3/4 04/15/25	1.28	0.01		2 year	1.37	0.03	
NZD	0.25	0.67	1.36	2.00	NZD	1.71	-0.01	NZGB 4 1/2 04/15/27	1.45	0.00		5 year	1.69	0.03	
EUR	0.00	0.06	-0.49	-0.10	GER	-0.47	-0.00	NZGB 3 04/20/29	1.62	-0.01		7 year	1.83	0.03	
GBP	0.10	0.07	0.49	0.84	GBP	0.57	0.00	NZGB 1 1/2 05/15/31	1.71	-0.02		10 year	2.00	0.02	
JPY	-0.05	-0.10	-0.02	0.05	JPY	0.02	-0.01	NZGB 2 3/4 04/15/37	2.17	-0.02		15 year	2.20	0.02	
CAD	0.25	0.44	0.80	1.62	CAD	1.16	-0.03	NZGB 1 3/4 05/15/41	2.43	-0.03					

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

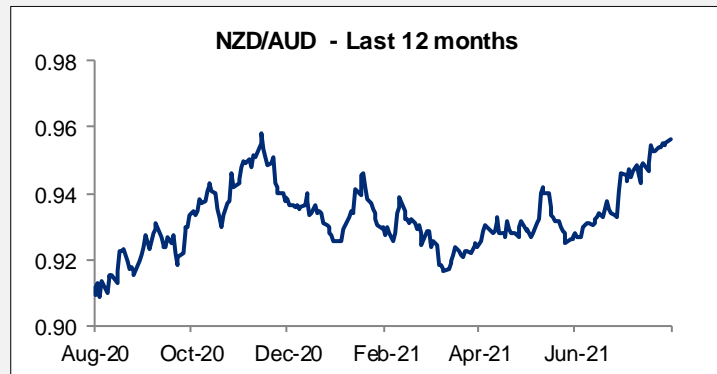
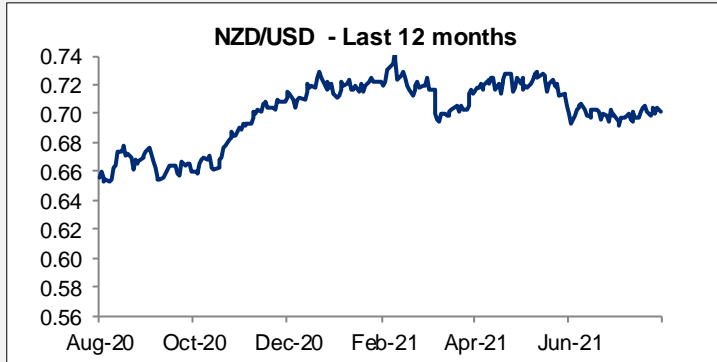
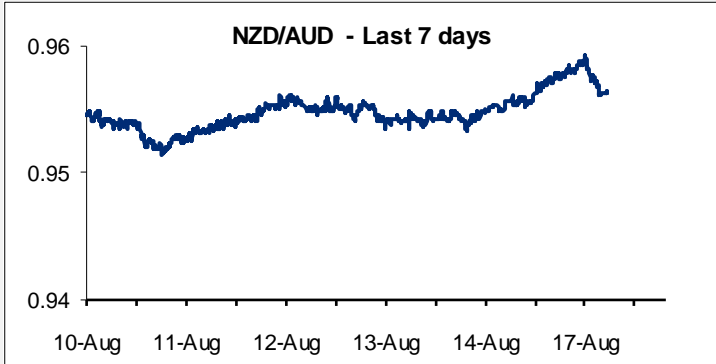
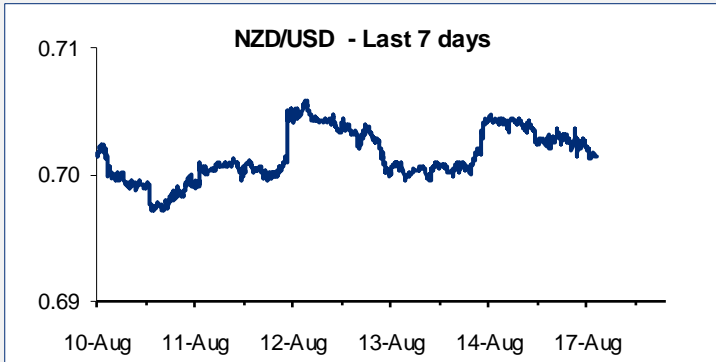
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:53

Source: Bloomberg

NZD exchange rates

17/08/2021 6:53 am		Prev. NY close
USD	0.7015	0.7042
GBP	0.5068	0.5079
AUD	0.9564	0.9555
EUR	0.5956	0.5969
JPY	76.64	77.17
CAD	0.8819	0.8813
CHF	0.6398	0.6448
DKK	4.4289	4.4386
FJD	1.4584	1.4732
HKD	5.4608	5.4807
INR	52.08	52.29
NOK	6.1929	6.1959
PKR	115.06	115.20
PHP	35.52	35.54
PGK	2.4554	2.4709
SEK	6.0700	6.0860
SGD	0.9511	0.9542
CNY	4.5420	4.5614
THB	23.45	23.48
TOP	1.5665	1.5677
VUV	77.91	78.27
WST	1.7971	1.7912
XPF	70.75	71.43
ZAR	10.4128	10.3762



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.91	-1.59
3 Months	-7.23	-6.70
6 Months	-19.91	-18.90
9 Months	-37.17	-35.53
1 Year	-57.62	-55.62

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.09	-3.39
3 Months	-14.05	-12.93
6 Months	-36.36	-34.18
9 Months	-62.07	-58.71
1 Year	-91.43	-86.48

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