

18 August 2021



Events Round-Up

UK: Unemployment rate (%), Jun: 4.7 vs. 4.8 exp.

US: Retail sales advance (m/m%), Jul: -1.1 vs. -0.3 exp.

US: Retail sales ex auto, gas (m/m%), Jul: -0.4 vs. 0.2 exp.

US: Industrial production (m/m%), Jul: 0.9 vs. 0.5 exp.

US: NAHB housing market index, Aug: 75 vs. 80 exp.

NZ: GDT dairy auction price index: +0.3%

Good Morning

Risk sentiment soured overnight after a weak US retail sales print, sending US equities much lower and the USD broadly higher. This added to NZD downside pressure yesterday, following the reporting of a single COVID19 case in the community, triggering a restrictive nationwide lockdown and some reassessment of RBNZ monetary policy. Support for the NZD has so far been found at 0.69. The AUD printed a fresh year-to-date low sub-0.7250.

The NZD has been hit by a double-blow over the past 24 hours, with a single COVID19 case in the community in Auckland doing most of the damage followed up by a risk-off overnight session. The NZD currently trades just above 0.69, taking its fall from this time yesterday to 1.6%, which on the global currency scorecard has only been outdone by the Afghanistan Afghani and Mauritian Rupee, some fine company there. On the positive side, support at 0.69 has held and its overnight performance was more middle-of-the-pack, with the AUD, GBP and Scandies doing worst, a hint that selling pressure might be exhausted.

Mid-afternoon the Ministry of Health announced NZ's first community case of COVID19 since February. By early evening the government announced a full restrictive level 4 lockdown for the entire country for at least three days, extending for seven days for Auckland and the Coromandel Peninsula, sending masses of unmasked kiwis into supermarkets and liquor stores. In overnight news, PM Ardern noted that four new COVID19 cases have been reported, including an Auckland hospital worker.

The announcement of a community case of COVID19 caused an outsized market reaction, with an immediate fall in the NZD and rates, cumulating to a 14bps plunge in the 2-year swap rate from 1.40% (having nudged higher earlier in the day) to 1.26%, with the market dialling back its expectations of near-term OCR hikes. This flowed through

across the whole yield curve. For the day, the 2-year swap rate was down 11bps, while the 10-year rate was down 8bps to 1.92%. NZGB yields were 9-10bps lower across the curve, after trading heavy before the COVID19 case was announced.

The timing of the COVID19 case couldn't come at a worst time for the RBNZ, one day ahead of its MPS, most of which would have been already written. Importantly, the MPC still has time to reassess any initial judgements, including the important rate decision. August OIS closed at 0.44%, implying 19bps of hikes priced for the meeting, down from the 30bps of hikes priced earlier in the day, but the market close was before the country-wide level 4 lockdown was announced, so rate hike expectations have likely been reassessed downwards since.

The restrictive lockdown and unknown spread of the virus has turned an RBNZ rate hike today from a sure thing into a coin toss. Supporting the RBNZ going ahead with a rate increase, the current strong inflationary pressures haven't magically disappeared and a relatively short lockdown would see a sharp bounce-back in activity, with not much overall economic loss. But even inflation hawks would understand if the RBNZ chose to delay the inevitable tightening, as long as the Bank indicated some intent to get moving once the dust has cleared.

In overnight news, US retail sales for July undershot market expectations, with the headline figure down 1.1%, dragged lower by auto sales, while the ex-autos figure was also weak, down 0.4%. While upward revisions to prior data overstated the miss relative to expectations, the market still saw the result as a bad outcome, following hot on the heels of Friday's report slump in consumer sentiment. The fall in sales is attributed to some payback from stimulus-induced spending earlier in the year, some sticker shock from higher prices, and a more cautious attitude as the delta variant of COVID19 spreads across the country.

Adding to the gloom, the NAHB housing market index also came in weaker than expected, unexpectedly dropping to a 13-month of 75, even though mortgage applications data have been pointing to a significant housing market slowdown for some time. A weaker than expected result Home Depot didn't help either, a further indication of some housing market softness. NAHB's chief economist pointed to higher costs and material access issues holding back home sales.

All this has seen US equities show a chunky fall off yesterday's record high, with the S&P500 currently down around 1% (having been down 1.4% at its low) and the Nasdaq index is down 1.1%.

Bond investors are obviously a more pessimistic lot as the US 10-year rate jumped higher after the retail sales report, suggesting that they were well prepared for a soft number following the plunge in consumer sentiment. Trading at their low for the day of 1.22% ahead of the release, the yield jumped as high as 1.27% and is currently 1.26%, barely lower for the day. Fed Chair Powell spoke to educators at a town hall meeting but his opening address didn't touch on the economy or monetary policy. Some Q&A touched on the economy, but nothing of note for the market.

The USD response to the retail sales data was more in tune with the equity market – risk off – sending the USD broadly higher. On the BBDXY index, the USD is up 0.5%, with EUR approaching 1.17 and GBP harder hit, falling to 1.3735. Even JPY is on the soft side, with USD/JPY up to 109.55.

The AUD has trended lower, showing some weakness after the RBA minutes were released, with the market latching onto the headline that said "the Board would be prepared to act in response to further bad news on the health front should that lead to a more significant setback for the economic recovery". The currency has traded to a fresh low of 0.7243 overnight.

The NZD is lower on all the crosses with NZD/AUD trading a wide range of over a cent, trading up just under support of 0.96 prior to the NZ COVID19 case announcement, falling to below 0.9490 last night before recovering to 0.9520.

The overnight GDT dairy auction saw a 0.3% lift in the price index, better than expected and breaking a run of eight consecutive falls since early April. While whole milk powder fell by 1.5%, other products were flat to higher, including a 2.8% lift in cheddar and 4.0% lift in butter.

Finally, the WSJ reported "exclusive" analysis of COVID19 showing that the delta variant appears to be breaking through the protection vaccines provide at a higher rate than previous strains, but infections among the fully inoculated remain a tiny fraction of overall cases (0.1%) and symptoms tend to be milder that don't require hospitalisation. That figure understates the number of break-through cases, as many vaccinated folk won't even realise they have COVID19 and therefore won't be tested, but the analysis highlighted how widespread vaccination can lead to a road to normality.

On the economic calendar, the RBNZ's statement will be the focus. Overnight, UK and Canadian CPI data, US housing starts and permits and minutes of the FOMC's July meeting round out the calendar.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	PPI output (q/q%)	Q2		1.2	10:45
AU	Wage price index (q/q%)	Q2	0.6	0.6	13:30
NZ	RBNZ official cash rate (%)	Aug	0.5	0.25	14:00
UK	CPI core (y/y%)	Jul	2.0	2.3	18:00
US	Building permits (k)	Jul	1610	1598	00:30
US	Housing starts (k)	Jul	1600	1643	00:30
CA	CPI Core (avg of 3 series y/y%)	Jul	2.2	2.2	00:30
US	FOMC Meeting Minutes	Jul			06:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)				Other FX		Major Indices			Price						
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6904	-1.6	0.6900	0.6933	CHF	0.9148	+0.3		S&P 500	4,431	-1.1	31.0	Oil (Brent)	69.00	-0.7
AUD	0.7252	-1.2	0.7243	0.7298	SEK	8.757	+1.2		Dow	35,272	-1.0	26.7	Oil (WTI)	66.57	-1.1
EUR	1.1711	-0.6	1.1709	1.1784	NOK	8.908	+0.8		Nasdaq	14,641	-1.0	31.5	Gold	1782.7	-0.2
GBP	1.3736	-0.8	1.3726	1.3814	HKD	7.791	+0.1		Stoxx 50	4,196	-0.1	26.9	HRC steel	1883.0	-0.6
JPY	109.57	+0.3	109.12	109.66	CNY	6.486	+0.2		FTSE	7,181	+0.4	17.2	CRB	214.1	-0.8
CAD	1.2625	+0.4			SGD	1.363	+0.5		DAX	15,922	-0.0	23.2	Wheat Chic.	747.5	-3.5
NZD/AUD	0.9520	-0.5			IDR	14,373	-0.1		CAC 40	6,820	-0.4	37.2	Sugar	20.02	-0.0
NZD/EUR	0.5895	-1.1			THB	33.34	-0.2		Nikkei	27,424	-0.4	19.0	Cotton	95.70	+0.4
NZD/GBP	0.5026	-0.8			KRW	1,177	+1.0		Shanghai	3,447	-2.0	-0.1	Coffee	182.0	-2.2
NZD/JPY	75.65	-1.4			TWD	27.85	+0.0		ASX 200	7,511	-0.9	22.7	WM powder	3505.0	+0.6
NZD/CAD	0.8716	-1.2			PHP	50.41	-0.5		NZX 50	12,635	-0.7	6.6	Australian Futures		
NZ TWI	73.78	-1.2											3 year bond	99.735	0.02
													10 year bond	98.89	0.05

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	0.12	0.31	1.27	USD	1.26	-0.01	0.92	-0.09	1 year	1.01	-0.11
AUD	0.10	0.01	0.21	1.26	AUD	1.14	-0.02	1.19	-0.09	2 year	1.25	-0.11
NZD	0.25	0.67	1.24	1.91	NZD	1.63	-0.09	1.36	-0.10	5 year	1.60	-0.09
EUR	0.00	0.06	-0.49	-0.10	GER	-0.47	-0.00	1.53	-0.09	7 year	1.74	-0.09
GBP	0.10	0.07	0.49	0.83	GBP	0.56	-0.01	1.63	-0.09	10 year	1.92	-0.08
JPY	-0.05	-0.10	-0.02	0.04	JPY	0.02	-0.01	2.08	-0.09	15 year	2.12	-0.08
CAD	0.25	0.44	0.80	1.61	CAD	1.15	-0.02	2.34	-0.09			

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

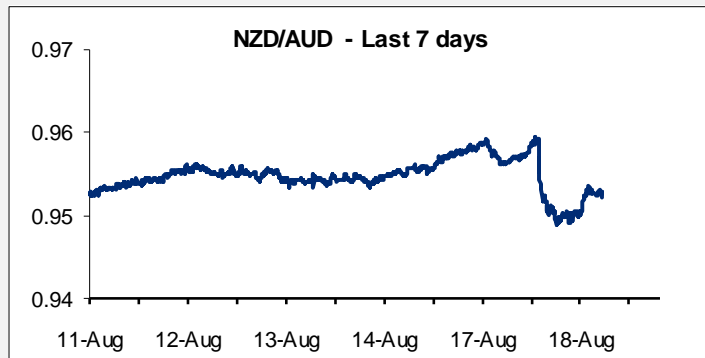
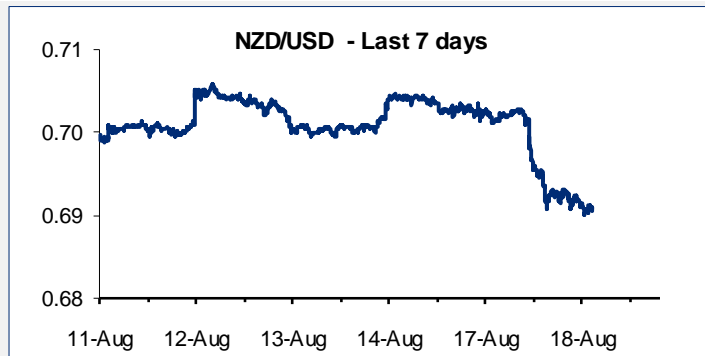
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:00

Source: Bloomberg

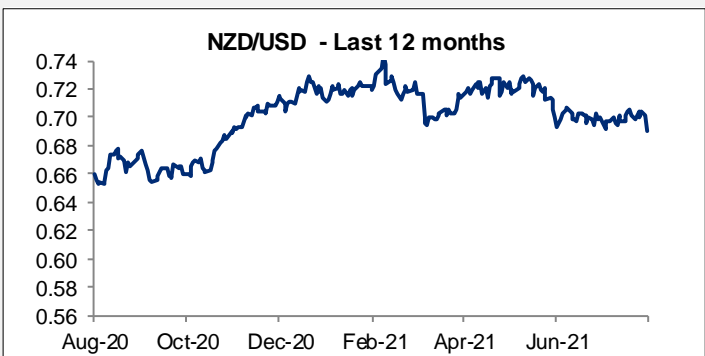
NZD exchange rates

18/08/2021	7:01 am	Prev. NY close
USD	0.6904	0.7019
GBP	0.5026	0.5068
AUD	0.9520	0.9565
EUR	0.5895	0.5959
JPY	75.65	76.68
CAD	0.8716	0.8826
CHF	0.6316	0.6402
DKK	4.3842	4.4316
FJD	1.4392	1.4602
HKD	5.3790	5.4638
INR	51.33	52.11
NOK	6.1501	6.2033
PKR	113.31	115.13
PHP	34.80	35.54
PGK	2.4199	2.4568
SEK	6.0456	6.0735
SGD	0.9407	0.9516
CNY	4.4781	4.5446
THB	22.97	23.46
TOP	1.5370	1.5674
VUV	76.63	77.95
WST	1.7733	1.7971
XPF	69.68	70.79
ZAR	10.2856	10.4181



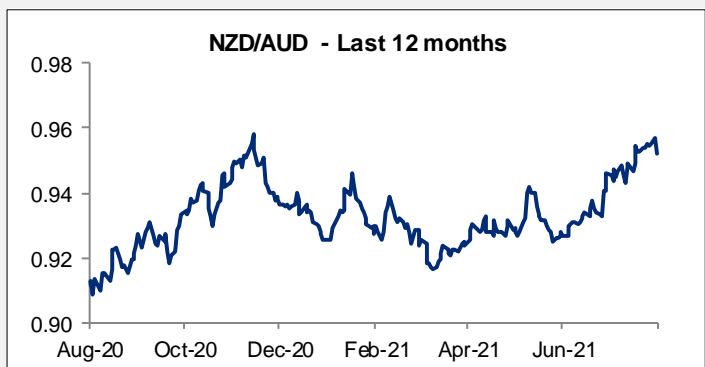
NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-1.28	-0.89
3 Months	-5.27	-4.76
6 Months	-16.14	-14.96
9 Months	-30.43	-28.44
1 Year	-48.61	-46.61



NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.26	-2.47
3 Months	-11.57	-10.47
6 Months	-31.81	-29.34
9 Months	-53.80	-49.73
1 Year	-80.38	-75.64



Contact Details

BNZ Research

Stephen Toplis
Head of Research
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Nick Smyth
Senior Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Ivan Colhoun
Global Head of Research
+61 2 9237 1836

Alan Oster
Group Chief Economist
+61 3 8634 2927

Ray Attrill
Head of FX Strategy
+61 2 9237 1848

Skye Masters
Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Sydney

Foreign Exchange +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

Hong Kong

Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

London

Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.