

19 August 2021



## Events Round-Up

NZ: PPI output (q/q%), Q2: 2.6 vs. 1.2 prev.

AU: Wage price index (q/q%), Q2: 0.4 vs. 0.6 exp.

NZ: RBNZ official cash rate (%), Aug: 0.25 vs. 0.25 prev.

UK: CPI core (y/y%), Jul: 1.8 vs. 2.0 exp.

US: Building permits (k), Jul: 1635 vs. 1610 exp.

US: Housing starts (k), Jul: 1534 vs. 1600 exp.

CA: CPI Core (avg of 3 series y/y%), Jul: 2.5 vs. 2.2 exp.

## Good Morning

The FOMC minutes have been the headline act overnight, but they revealed nothing much new. US equities have traded with a slightly cautious tone and US Treasuries are little changed. USD strength leading up to the minutes faded after their release. Despite a rocky road over the past 24 hours, the NZD shows little net change from this time yesterday after absorbing the RBNZ's MPS.

The key news overnight was the release of the FOMC minutes from the July meeting. Leading into their publication, market price action suggested that there were some nerves that they could contain a hawkish surprise. In the event, the minutes revealed little new.

Most participants judged that the Committee's standard of "substantial further progress" toward the maximum-employment goal had not yet been met while all participants judged that the economy has met the inflation part of the metric required for the taper. The key line of forward guidance was that "Most participants anticipated that the economy would continue to make progress toward those goals and, provided that the economy evolved broadly as they anticipated, they judged that the standard set out in the Committee's guidance regarding asset purchases could be reached this year."

That view aligns with market expectations, with the only question being which month the decision to taper will come. And nothing much has changed to the extent that it will likely depend on the data, namely the key employment report, and the course of the virus. Furthermore, rate hikes will not come until the end of the QE programme, likely well into the second half of next year, and there is a lot of water to pass under the bridge until we've reached that point.

Ahead of the FOMC minutes, US equities traded slightly weaker, the US 2 and 10 year rates drifted higher and the USD was in the ascendancy, all suggesting that the market was anticipating that the minutes might deliver a hawkish surprise. Post minutes, US equities have remained moderately weaker, but the USD has weakened and the 10-year rate has nudged lower. The net result is that the BBDXY USD index is little changed for the day and same for the 10-year rate, currently at 1.27%.

Economic data releases were largely ignored, with only fleeting market movements around their release. Canada CPI data for July were much stronger than expected, with annual headline inflation rising to 3.7% and the average of three core measures up to 2.5%, following a similar theme seen in the US and NZ of late. Going against the grain, in the UK annual headline CPI inflation fell to 2.0% and core inflation fell to 1.8%, although this blip down is widely seen to be temporary, ahead of inflation rising up to 4.0% on BoE projections, and slightly less than that on market estimates. US housing market data were mixed, with permits rising by more than expected and starts falling by more than expected.

Ahead of the minutes when the USD was heading higher, EUR fell to its lowest level since November last year, trading below 1.17 while even the yen was weak, with USD/JPY rising to 110. The AUD traded a fresh year-to-date low of 0.7229, before bouncing post FOMC minutes to 0.7250.

The NZD weakened overnight, trading back below 0.69 but has since regained the 0.69 handle after the FOMC minutes. It was a wild ride yesterday amidst the release of the RBNZ's Monetary Policy Statement, with support of 0.69 breaking and a fresh low of 0.6870 printed, but the NZD recovered its losses after a careful read of the Statement, resulting in little net change. Clearly, global forces remain in charge for the NZD, with USD strength leading to a move back down to around 0.6880 overnight and currently back around 0.69.

The thrust of the RBNZ's Monetary Policy Statement was that the Bank was ready to deliver a long series of rate hikes to bring the OCR at least to a neutral level (estimated at about 2%), but the COVID outbreak that was discovered 24 hours earlier resulted in an immediate re-think. This was obvious by the phrasing "Emergency levels of monetary stimulus are no longer warranted given the strength in employment and rising inflationary pressures.

Our central projection implies that monetary stimulus should be reduced to ensure the MPC meets its objective”, but the MPC agreed to “keep the OCR unchanged at this meeting given the heightened uncertainty with the country in a lockdown”.

The initial market reaction was to take rates and the NZD lower on the headlines of a no-change decision in a market half-expecting a rate hike, but a close reading of the mainly hawkish document saw a quick reversal. From a pre-MPS level of 1.23%, the 2-year swap rate traded down to a low of 1.175%, before zipping higher and closing the day little changed at 1.26%. The steeper path of future tightening fed into longer term yields, with the 10-year swap rate closing the day up 3bps at 1.95%. The NZGB market also saw a steeper curve, with rates barely higher at the short end and the 10-year rate up 4bps to 1.68%.

At the close, the market was willing to price in a good chance that the rate hike cycle kicks off from the next meeting in October (19bps priced), but unwilling to fully build in two rate hikes for the year, given the uncertainty around the length of the current lockdown. The market was also unwilling to price rates going as high as the Bank projects, with the curve still weighed down by the global backdrop. The RBNZ’s policy actions ahead are likely to be heavily dependent on the course of the virus.

As we go to print there doesn’t appear to be much fresh COVID19 related news for NZ. The number of community cases of COVID19 rose to 10 yesterday, with 9 of those cases connected and one case linked to the border, providing a line of inquiry that might reveal the initial source of infection into the community.

In the day ahead, after a very strong run, Australian labour market data are expected to soften, given the widespread lockdowns, with a fall in employment and a tick higher in the unemployment rate to 5.0%. Tonight, US jobless claims and the Philly Fed business outlook index was expected to show some modest improvement.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

		Period	Cons.	Prev.	NZT
AU	Employment change (k)	Jul	-43	29	13:30
AU	Unemployment rate (%)	Jul	5.0	4.9	13:30
US	Initial jobless claims	14-Aug	364	375	00:30
US	Philly Fed business outlook	Aug	23.3	21.9	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	0.6891	-0.4	0.6876	0.6929	CHF	0.9167	+0.3	S&P 500	4,435	-0.3	30.8	Oil (Brent)	67.86	-1.7
AUD	0.7243	-0.1	0.7229	0.7267	SEK	8.724	-0.4	Dow	35,199	-0.4	26.7	Oil (WTI)	65.07	-2.3
EUR	1.1711	+0.0	1.1694	1.1742	NOK	8.894	-0.2	Nasdaq	14,654	-0.0	30.7	Gold	1788.0	+0.2
GBP	1.3759	+0.1	1.3738	1.3786	HKD	7.787	-0.1	Stoxx 50	4,189	-0.2	27.4	HRC steel	1887.0	+0.1
JPY	109.89	+0.3	109.54	110.07	CNY	6.485	-0.0	FTSE	7,169	-0.2	18.0	CRB	212.9	-0.6
CAD	1.2633	+0.0			SGD	1.360	-0.1	DAX	15,966	+0.3	23.9	Wheat Chic.	749.5	+0.1
NZD/AUD	0.9514	-0.3			IDR	14,373	+0.0	CAC 40	6,770	+0.5	37.1	Sugar	20.17	+0.7
NZD/EUR	0.5884	-0.4			THB	33.29	-0.2	Nikkei	27,586	+0.6	19.4	Cotton	95.52	-1.4
NZD/GBP	0.5008	-0.5			KRW	1,168	-0.7	Shanghai	3,485	+1.1	2.3	Coffee	182.9	+0.5
NZD/JPY	75.73	-0.1			TWD	27.85	-0.0	ASX 200	7,502	-0.1	21.6	WM powder	3500.0	-0.1
NZD/CAD	0.8705	-0.4			PHP	50.42	+0.0	NZX 50	12,719	+0.7	8.2	<b>Australian Futures</b>		
NZ TWI	73.63	-0.4										3 year bond	99.745	0.01
												10 year bond	98.87	0.00
Interest Rates					NZ Government Bonds			NZ Swap Yields						
	Rates				Benchmark 10 Yr Bonds		Last		Last		Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	0.25	0.13	0.31	1.28	USD	1.27	0.01	NZGB 5 1/2 04/15/23	0.93	0.01	1 year	0.96	-0.05	
AUD	0.10	0.01	0.21	1.27	AUD	1.14	0.00	NZGB 2 3/4 04/15/25	1.21	0.02	2 year	1.25	-0.00	
NZD	0.25	0.55	1.25	1.95	NZD	1.68	0.04	NZGB 4 1/2 04/15/27	1.39	0.04	5 year	1.63	0.03	
EUR	0.00	0.06	-0.50	-0.10	GER	-0.48	-0.01	NZGB 3 04/20/29	1.57	0.04	7 year	1.78	0.03	
GBP	0.10	0.07	0.48	0.84	GBP	0.57	0.00	NZGB 1 1/2 05/15/31	1.68	0.05	10 year	1.95	0.03	
JPY	-0.05	-0.10	-0.02	0.05	JPY	0.02	0.01	NZGB 2 3/4 04/15/37	2.13	0.05	15 year	2.16	0.04	
CAD	0.25	0.44	0.82	1.62	CAD	1.16	0.00	NZGB 1 3/4 05/15/41	2.39	0.05				

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

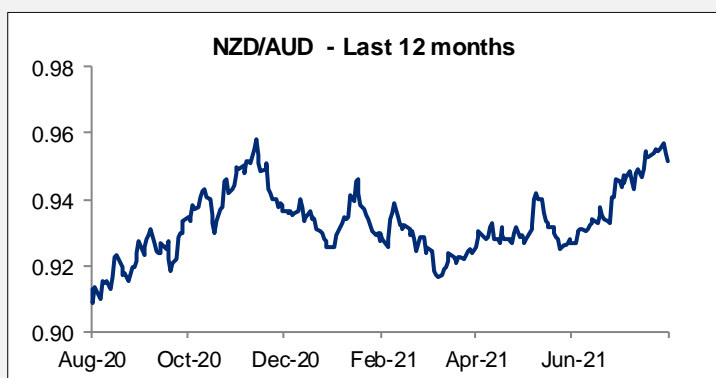
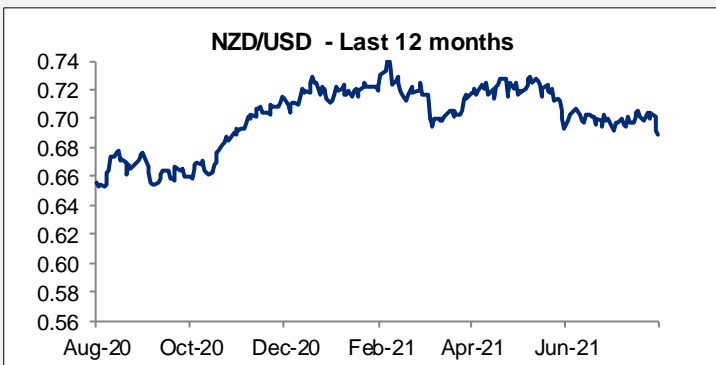
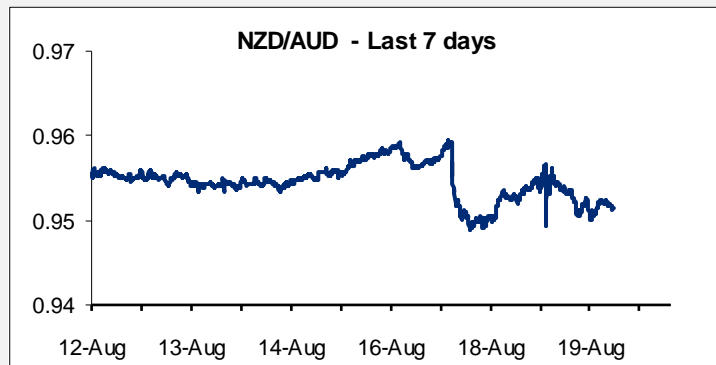
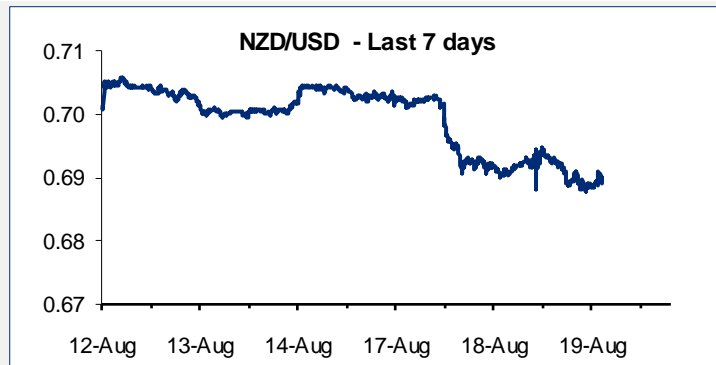
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:02

Source: Bloomberg

**NZD exchange rates**

19/08/2021	7:03 am	Prev. NY close
USD	0.6891	0.6919
GBP	0.5008	0.5035
AUD	0.9514	0.9540
EUR	0.5884	0.5909
JPY	75.73	75.83
CAD	0.8705	0.8738
CHF	0.6317	0.6324
DKK	4.3760	4.3943
FJD	1.4477	1.4451
HKD	5.3659	5.3916
INR	51.16	51.44
NOK	6.1286	6.1670
PKR	113.09	113.49
PHP	34.75	34.87
PGK	2.4179	2.4252
SEK	6.0114	6.0592
SGD	0.9375	0.9426
CNY	4.4686	4.4879
THB	22.94	23.02
TOP	1.5389	1.5403
VUV	76.94	76.75
WST	1.7677	1.7721
XPF	70.09	70.42
ZAR	10.2977	10.3167



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.41	-0.07
3 Months	-2.88	-2.33
6 Months	-11.75	-10.63
9 Months	-26.23	-24.23
1 Year	-45.16	-43.16

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.14	-1.48
3 Months	-8.61	-7.54
6 Months	-26.10	-23.79
9 Months	-48.45	-44.37
1 Year	-76.32	-71.65

## 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.