

1 September 2021



## Events Round-Up

JN: Industrial production (m/m%), Jul: -1.5 vs. -2.5 exp.

NZ: ANZ activity outlook (net%), Aug: 19.2 vs. 26.3 prev.

CH: Non-manufacturing PMI, Aug: 47.5 vs. 52.0 exp.

CH: Manufacturing PMI, Aug: 50.1 vs. 50.2 exp.

AU: Current account balance (\$b), Q2: 20.5 vs. 21.4 exp.

GE: Unemployment rate (%), Aug: 5.5 vs. 5.6 exp.

EC: CPI core (y/y%), Aug: 1.6 vs 1.5 exp.

EC: CPI (y/y%), Aug: 3.0 vs. 2.7 exp.

CA: GDP (q/q% ann'lsd), Q2: -1.1 vs. 2.5 exp.

US: Chicago PMI, Aug: 66.8 vs. 68.0 exp.

US: Conf. Board cons. confid., Aug: 113.8 vs. 123.0 exp.

## Good Morning

A plethora of generally weaker than expected economic data and higher inflation indicators has seen the blistering run in US equities paused for at least a day, while global rates have pushed higher. Currency markets have swung about due to month-end flows, but the NZD has been the standout performer, sustaining the solid gain seen during local trading hours.

After struggling yesterday to report on anything of note, we are now spoilt for choice, with a string of key economic releases, even if market reaction to them has been modest. We'll cover off the key releases in chronological order.

Weaker activity indicators in NZ's ANZ business outlook survey suggested that momentum was fading off a high base coming into lockdown. A quarter of the responses came after the level 4 lockdown announcement and, encouragingly, the difference between the pre and post lockdown responses was only 4 points for the own-activity indicator, although it is probably far too early to draw too many conclusions. Certainly, there was no evident concern for the RBNZ as it looks to kick off a tightening cycle next month, particularly with inflation expectations pushing higher and selling price intentions remaining near record highs.

China PMI data were on the soft side, more so for the non-manufacturing sector index which plunged to 47.5, well into contraction territory. This reflected the lockdown restrictions the government imposed to contain the recent

wave of COVID19 which particularly affected the services sector. Market reaction was contained to the extent that recent success in containing the virus and signals of easier monetary policy give some hope for an eventual rebound in activity.

Euro area CPI inflation data were much higher than expected, with the annual rise in the headline figure jumping to 3.0% and the core rate up to 1.6%, the highest in a decade. Some special factors have driven inflation higher and near-term pressures remain to the upside, but expectations are that inflation will fall back down next year. However, the data set up a more interesting ECB meeting next week and the Austrians have already given their view following the data.

Austria's central bank Governor Holzmann suggested slowing down the rate of QE in Q4 and more so in Q1 at the meeting, meaning that the purchases under the PEPP won't exhaust the full size of the programme, due to expire at the end of Q1. His colleague, Knot, who is also on the Governing Council, shared the same view, looking to end the PEPP and a reduction in the purchase pace.

The combination of higher inflation data and those comments saw a steady lift in Germany's 10-year rate, up 6bps for the day to minus 0.38%, its highest level in six weeks. EUR lifted to as high as 1.1845 overnight, before falling into the London fix and it is currently flat for the day just above 1.18. The backdrop of higher European yields has helped push the US 10-year rate higher, up over 2bps since the NZ close to 1.30%.

Canadian Q2 GDP unexpectedly contracted in Q2 and a preliminary estimate showed another decline in July, adding to the disappointment, hosing down expectations that the Bank of Canada would taper its QE programme again next week, now likely deferring its decision for another month.

In the US the recent plunge in the University of Michigan consumer sentiment survey had given a good steer on what to expect for the Conference Board measure, but that index of consumer confidence still fell by much more than expected. The fall has been widely blamed on the spread of the delta variant but one could also point to the sharp rise in inflation recently, which acts like a tax by reducing disposable income. The Chicago PMI also fell by more than expected but notably supply pressures remained intense with order backlogs and supplier delivery times rising to multi-decade highs, alongside the prices

paid index, suggesting continuing high inflationary pressure.

Despite that impressive array of data, apart from the NZD, net currency movements since this time yesterday have been small. Month-end flows look to have been a notable feature with the USD swinging lower from yesterday afternoon before settling down and then swinging higher into the London fix.

The NZD shot up 50 pips just after noon yesterday which had everyone scratching their heads, with speculation ranging from a fat finger trade in illiquid market conditions to a break in AUD/NZD below 1.04 adding to the move. Whatever the reason, the move has been sustained overnight, and the NZD has been too-cheap for too-long and well overdue for some loving. Overnight, some resistance was met just under the 0.7070 mark and it currently trades around 0.7050, up 0.8% for the day.

The breakout move on a day when other currencies have shown only small net movements against the USD, sees the NZD higher on all the crosses. The 0.96 resistance mark for NZD/AUD clearly broke to reach a 17-month high, with the cross currently up 0.5% to 0.9640. Other cross movements have been in the order of 0.7-0.8%.

It was another quiet day for the domestic rates market, with little change in yields. Against a backdrop of lower US and Australian rate pressure through the day, the NZGB 10-year rate was less than 1bp lower at 1.72%, with investors having one eye on the upcoming launch of the new 30-year bond the week after next.

All of NZ south of Auckland sees a shift down in restrictions to Level 3 from today, which will see increased economic activity for construction sites and businesses that can allow contactless pickup. The number of new community cases of COVID19 fell for a second consecutive day and, at 49, was the lowest in week, providing more hope that the quick and sharp lockdown has helped contain the spread.

In the day ahead, Australian Q2 GDP data are released with the consensus picking a modest 0.5% q/q increase, the data being of academic interest only, with the extensive lockdowns pointing to a significant contraction in the current quarter. Tonight, in the US ADP private payrolls will be of interest ahead of the key non-farm payrolls figure at the end of the week – both expected to be strong – while the ISM manufacturing index is expected to slip from a robust level.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	GDP (q/q%)	2Q	0.5	1.8	13:30
CH	Caixin PMI manufacturing	Aug	50.2	50.3	13:45
EC	Unemployment rate (%)	Jul	7.6	7.7	21:00
US	ADP employment (k)	Aug	625	330	00:15
US	ISM manufacturing	Aug	58.5	59.5	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	0.7055	+0.8	0.7034	0.7069	CHF	0.9150	-0.2	S&P 500	4,522	-0.2	29.2	Oil (Brent)	72.96	-0.6
AUD	0.7319	+0.3	0.7303	0.7338	SEK	8.623	-0.0	Dow	35,356	-0.1	24.4	Oil (WTI)	68.37	-1.2
EUR	1.1811	+0.1	1.1797	1.1845	NOK	8.687	+0.2	Nasdaq	15,274	+0.1	29.7	Gold	1815.7	+0.3
GBP	1.3758	-0.0	1.3743	1.3808	HKD	7.778	-0.1	Stoxx 50	4,196	-0.1	28.2	HRC steel	1945.0	+0.3
JPY	109.99	+0.1	109.59	110.08	CNY	6.461	-0.1	FTSE	7,120	-0.4	19.4	CRB	218.2	-0.6
CAD	1.2608	+0.0			SGD	1.344	-0.1	DAX	15,835	-0.3	22.3	Wheat Chic.	724.0	+0.1
NZD/AUD	0.9639	+0.5			IDR	14,268	-0.7	CAC 40	6,680	+0.3	35.0	Sugar	19.84	-1.9
NZD/EUR	0.5973	+0.7			THB	32.24	-0.8	Nikkei	28,090	+1.1	21.4	Cotton	93.91	-1.2
NZD/GBP	0.5128	+0.8			KRW	1,159	-0.6	Shanghai	3,544	+0.4	3.9	Coffee	195.9	-2.3
NZD/JPY	77.60	+0.9			TWD	27.67	-0.4	ASX 200	7,535	+0.4	26.6	WM powder	3550.0	+0.0
NZD/CAD	0.8895	+0.8			PHP	49.75	-0.2	NZX 50	13,219	+0.3	12.1	<b>Australian Futures</b>		
NZ TWI	74.86	+0.6										3 year bond	99.72	-0.03
												10 year bond	98.82	-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	0.30	1.32	USD	1.30	0.03	NZGB 5 1/2 04/15/23	0.91	0.00	1 year	0.96	0.01
AUD	0.10	0.01	0.22	1.35	AUD	1.16	-0.01	NZGB 2 3/4 04/15/25	1.24	-0.01	2 year	1.29	0.00
NZD	0.25	0.46	1.29	2.00	NZD	1.72	-0.01	NZGB 4 1/2 04/15/27	1.41	-0.01	5 year	1.65	0.00
EUR	0.00	0.06	-0.48	-0.03	GER	-0.38	0.06	NZGB 3 04/20/29	1.59	-0.01	7 year	1.78	0.00
GBP	0.10	0.07	0.49	0.90	GBP	0.71	0.14	NZGB 1 1/2 05/15/31	1.72	-0.01	10 year	1.97	0.00
JPY	-0.05	-0.10	-0.02	0.06	JPY	0.03	0.00	NZGB 2 3/4 04/15/37	2.23	-0.00	15 year	2.23	0.01
CAD	0.25	0.44	0.80	1.70	CAD	1.22	0.04	NZGB 1 3/4 05/15/41	2.51	-0.00			

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

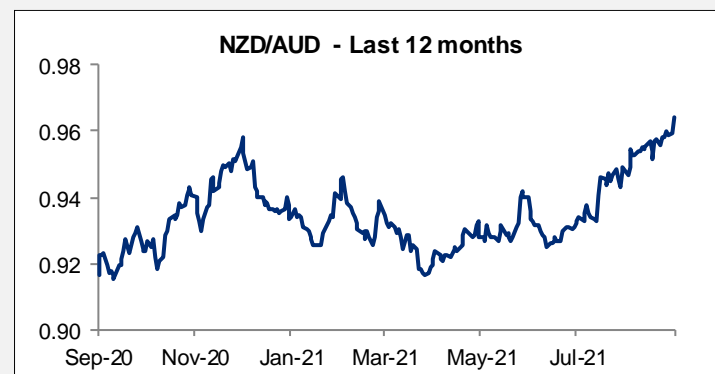
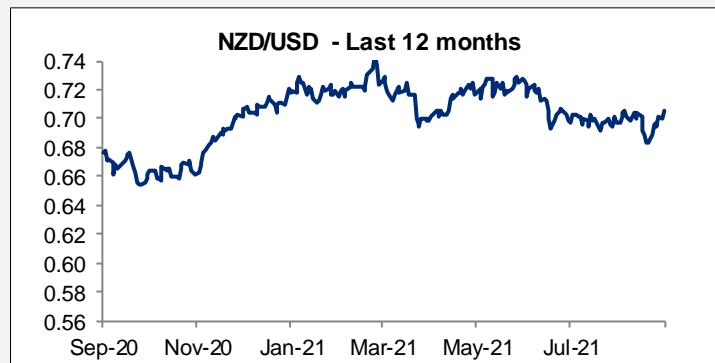
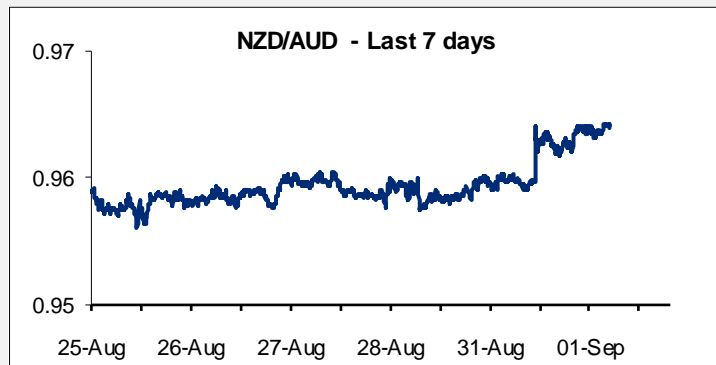
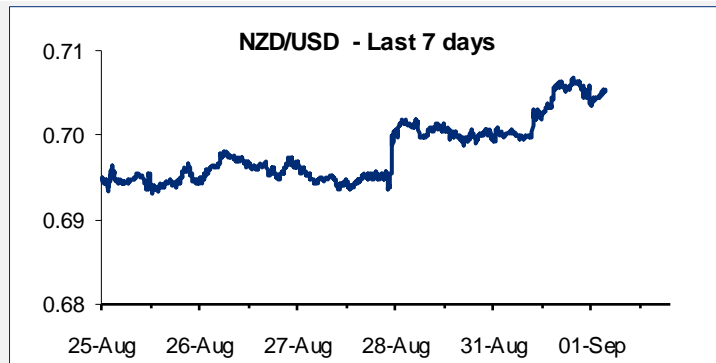
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:59

Source: Bloomberg

## NZD exchange rates

1/09/2021	7:00 am	Prev. NY close
USD	0.7055	0.6999
GBP	0.5128	0.5086
AUD	0.9639	0.9593
EUR	0.5973	0.5933
JPY	77.60	76.93
CAD	0.8895	0.8823
CHF	0.6455	0.6417
DKK	4.4420	4.4117
FJD	1.4738	1.4661
HKD	5.4871	5.4496
INR	51.51	51.28
NOK	6.1287	6.0682
PKR	116.00	116.19
PHP	35.10	34.96
PGK	2.4754	2.4558
SEK	6.0834	6.0376
SGD	0.9481	0.9418
CNY	4.5580	4.5260
THB	22.75	22.72
TOP	1.5692	1.5578
VUV	78.36	77.60
WST	1.8044	1.7924
XPF	71.39	70.81
ZAR	10.2405	10.2699



## NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.19	0.14
3 Months	-3.70	-3.14
6 Months	-13.85	-12.85
9 Months	-30.55	-28.58
1 Year	-51.11	-49.11

## NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.29	-1.61
3 Months	-9.45	-8.32
6 Months	-28.76	-26.60
9 Months	-54.29	-50.28
1 Year	-84.11	-79.40

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