

2 August 2021



## Events Round-Up

NZ: ANZ consumer confidence, Jul: 113.1 vs. 114.1 prev.

NZ: Building permits (m/m%), Jun: 3.8 vs. -2.8 prev.

GE: GDP (q/q%), Q2: 1.5 vs. 2 exp.

EZ: GDP (q/q%), Q2: 2 vs. 1.5 exp.

EZ: Core CPI (y/y%), Jul: 0.7 vs. 0.7 exp.

US: Employment cost index (q/q%), Q2: 0.7 vs. 0.9 exp.

US: Personal spending (m/m%), Jun: 1 vs. 0.7 exp.

US: Personal income (m/m%), Jun: 0.1 vs. -0.3 exp.

US: Core PCE deflator (y/y%), Jun: 3.5 vs. 3.7 exp.

US: Chicago PMI, Jul: 73.4 vs. 64.1 exp.

CH: Non-manufacturing PMI, Jul: 53.3 vs. 53.3 exp.

CH: Manufacturing PMI, Jul: 50.4 vs. 50.8 exp.

## Good Morning

Equity markets ended lower on Friday, in part due to disappointing earnings from Amazon, while the US 10-year rate fell back towards 1.20%. On the week, equities and bond yields were both modestly lower. The USD bounced back on Friday, although it still experienced one of its largest weekly falls of the year. The NZD and AUD underperformed both on Friday and over the week, with the ongoing lockdowns in Australia seeing consensus shift towards the RBA announcing a reversal of its tapering decision at its meeting this week. The HLFS labour market report is the highlight domestically this week while nonfarm payrolls on Friday is the key offshore data release.

There was a lot the market to digest last week, including the Fed meeting, corporate earnings reports, plenty of economic data, and ongoing concerns about the spread of the delta variant but week-to-week movements in US and European equity markets and major bond yields were reasonably muted. The S&P500 was down 0.4% last week, having set a record high mid week, the EuroStoxx 600 was flat, while the NASDAQ was down just over 1%, with disappointing earnings guidance from Facebook and Amazon alongside the Chinese regulatory crackdown on the private education and tech sectors weighing on tech stocks. China's CSI300 was down over 5% last week. The US 10-year rate was confined to a very narrow 1.22% to 1.29% range last week, ending Friday at the bottom of that range. Month-end related buying may have been a factor in the 5bp fall in the US 10-year rate on Friday.

Amazon's share price fell 7.6% on Friday after it guided analysts to expect a slowdown in revenue this quarter, as restrictions are lifted in the US and Europe and consumers divert online spending to other areas. Big tech stocks helped drag the S&P500 and NASDAQ 0.5% and 0.7% lower respectively on Friday. A common theme in corporate earnings reports this quarter has been higher input costs, with Procter and Gamble and industry bellwether Caterpillar both warning on Friday that profit margins could be impacted. Still, it has been an overwhelmingly positive earnings season with around 90% of S&P500 companies having beaten earnings expectations.

The USD was broadly stronger on Friday but lower over the course of the week, as the Fed meeting solidified expectations it is unlikely to announce a tapering of its bond buying until late in the year. The BBDXY index touched a one month-low on Friday evening but recovered to finish 0.4% higher, possibly assisted by month-end demand. The NOK was the worst performer on Friday, down 0.9%, with the AUD and NZD behind it on the currency leader board, down 0.5% and 0.7% respectively.

On the week, the AUD (-0.3%) and NZD (flat) were the clear underperformers amidst a weaker USD backdrop (BBDXY -0.7%). That might be partly explained by the ongoing lockdowns in Australia, which has led the market to expect the RBA will reverse its recent tapering decision. The GBP was up 1.1% last week, the EUR and JPY both gained 0.8% while even the CNH rose 0.2%.

There was a lot of economic data released on Friday, but without much impact on markets. Eurozone GDP was stronger than expected (+2% q/q, +1.5% expected), with strength the periphery offsetting weaker-than-expected growth in Germany. Despite the growth pickup in Europe, core inflation remains very subdued, at just 0.7% y/y, way below the ECB's 2% target.

In the US, the employment cost index – a measure of labour costs – was lower-than-expected (+0.7% q/q vs +0.9% expected), with healthy wage growth offset by slowdown in benefit payments. The core PCE deflator, the Fed's preferred inflation measure, picked up to 3.5% y/y in June, its highest level since the early-1990s but lower than market expectations. The core PCE deflator has a lower weight to used car prices than does CPI, which has been one of the outsized drivers of recent inflationary pressures. The key debate is not whether some of the current

inflation drivers are temporary, but whether there will be second-round effects to wages and inflation expectations and where core inflation settles in 12-24 months. That debate is no closer to being settled than it was a few months ago. Elsewhere, the volatile Chicago PMI jumped above 70, its second highest reading since the mid-1980s.

The official Chinese PMIs released over the weekend showed some further loss of growth momentum in China. The manufacturing index fell to 50.4, a post-Covid low although still in expansionary territory, while the non-manufacturing index trivially fell, to 53.3.

The market paid no attention to hawkish comments from Dallas Fed President Bullard, who argued for tapering to start imminently and to end in Q1 next year. Fed Board Governor Brainard, seen as a far better barometer of Fed thinking, instead said that she thought the test of “substantial further progress” might be met by December and possibly a little earlier, if job growth accelerated.

In Australia, Queensland announced a snap three-day lockdown for south eastern parts of the state, including Brisbane, after the emergence of community cases there. That means all three of Australia’s largest states are now in lockdown alongside South Australia. Australia’s economy is now expected to contract in Q3.

Against this backdrop the RBA is expected to reverse its previous decision to taper its bond purchase pace from September when it meets this week. Some economists are even looking for it to increase its weekly purchase pace from the current \$5b per week. The market has pushed back the expected timing of the first RBA hike from late 2022 into 2023.

NZ rates moved higher and the yield curve steeper on Friday, with the 2-year swap rate increasing 2bps, to 1.05%, and the 10-year rate 5bps higher, at 1.81%. NZ rates spent last week consolidating within a tight range, similar to other fixed income markets. In domestic data, building consents were again very strong in June (+3.8% m/m%), suggesting construction activity will continue to add to GDP growth, while consumer confidence remained below average (despite still-strong retail spending).

The domestic highlight this week is the quarterly HLFS labour market report. We are in-line with consensus in looking for employment growth of 0.7% and a fall in the unemployment rate to 4.4% (RBNZ: +0.2% and 4.7%). The HLFS can be notoriously volatile but we think the risks are probably skewed to an even stronger result given the scale and breadth of improvement in leading indicators and anecdotes emerging from businesses. In the US, nonfarm payrolls are expected to increase by 900k, a pickup on last month’s 850k, with the unemployment rate falling from 5.9% to 5.7%. The ISM surveys are also released. The Bank of England also meets and while no change in policy is expected, there could be a few dissents against continuing with its QE bond buying programme.

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## Coming Up

		Period	Cons.	Prev.	NZT
CH	Caixin China PMI Manufacturing	Jul	51	51.3	13:45
GE	Retail Sales (m/m%)	Jun	1.8	4.2	18:00
EC	Markit Eurozone Manufacturing PMI	Jul F	62.6	62.6	20:00
US	ISM Manufacturing	Jul	60.7	60.6	02:00

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	0.6974	-0.5	0.6959	0.7021	CHF	0.9059	-0.0	S&P 500	4,395	-0.5	35.4	Oil (Brent)	75.41	+0.4
AUD	0.7344	-0.7	0.7331	0.7405	SEK	8.592	+0.4	Dow	34,935	-0.4	32.8	Oil (WTI)	73.95	+0.4
EUR	1.1870	-0.1	1.1852	1.1909	NOK	8.814	+0.9	Nasdaq	14,673	-0.7	38.6	Gold	1812.6	-1.0
GBP	1.3904	-0.4	1.3888	1.3983	HKD	7.772	+0.0	Stoxx 50	4,089	-0.7	28.8	HRC steel	1888.0	+0.0
JPY	109.72	+0.2	109.48	109.83	CNY	6.461	+0.1	FTSE	7,032	-0.7	19.2	CRB	218.1	-1.4
CAD	1.2475	+0.2			SGD	1.354	+0.1	DAX	15,544	-0.6	26.2	Wheat Chic.	713.0	-0.1
NZD/AUD	0.9496	+0.1			IDR	14,463	-0.1	CAC 40	6,613	-0.1	38.2	Sugar	17.91	-2.1
NZD/EUR	0.5875	-0.3			THB	32.90	+0.1	Nikkei	27,284	-1.8	25.7	Cotton	89.83	-1.0
NZD/GBP	0.5016	-0.1			KRW	1,150	+0.3	Shanghai	3,397	-0.4	2.6	Coffee	179.6	-8.6
NZD/JPY	76.52	-0.3			TWD	27.96	+0.2	ASX 200	7,393	-0.3	24.7	WM powder	3805.0	+0.4
NZD/CAD	0.8700	-0.3			PHP	50.01	-0.6	NZX 50	12,595	-1.1	7.4	<b>Australian Futures</b>		
NZ TWI	74.05	-0.3										3 year bond	99.715	-0.01
												10 year bond	98.82	-0.01
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates				Benchmark 10 Yr Bonds		Last		Last		Last		Last	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	0.25	0.13	0.26	1.25	USD	1.22	-0.05	NZGB 5 1/2 04/15/23	0.71	0.02	1 year	0.82	0.01	
AUD	0.10	0.02	0.20	1.31	AUD	1.18	0.03	NZGB 2 3/4 04/15/25	0.99	0.03	2 year	1.05	0.02	
NZD	0.25	0.48	1.05	1.81	NZD	1.52	0.04	NZGB 4 1/2 04/15/27	1.20	0.03	5 year	1.46	0.03	
EUR	0.00	0.06	-0.49	-0.07	GER	-0.46	-0.01	NZGB 3 04/20/29	1.41	0.04	7 year	1.63	0.04	
GBP	0.10	0.07	0.43	0.82	GBP	0.57	-0.01	NZGB 1 1/2 05/15/31	1.52	0.04	10 year	1.81	0.05	
JPY	-0.05	-0.10	-0.03	0.04	JPY	0.02	0.00	NZGB 2 3/4 04/15/37	1.99	0.04	15 year	2.03	0.05	
CAD	0.25	0.44	0.78	1.66	CAD	1.20	-0.00	NZGB 1 3/4 05/15/41	2.26	0.04				

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

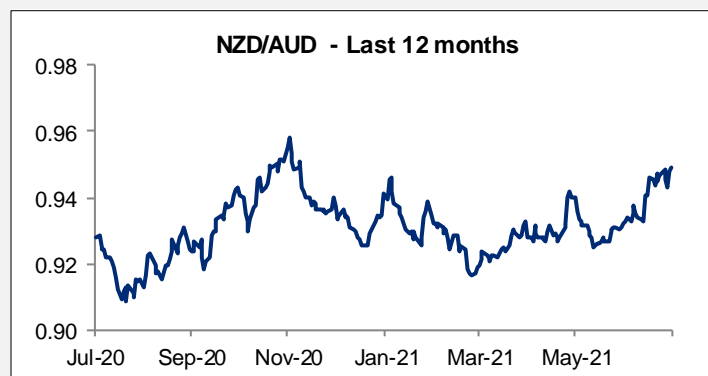
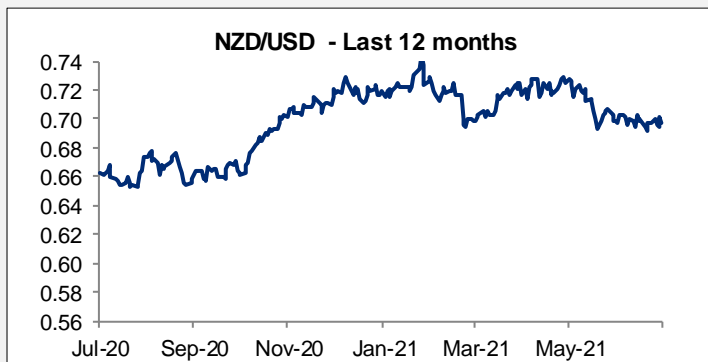
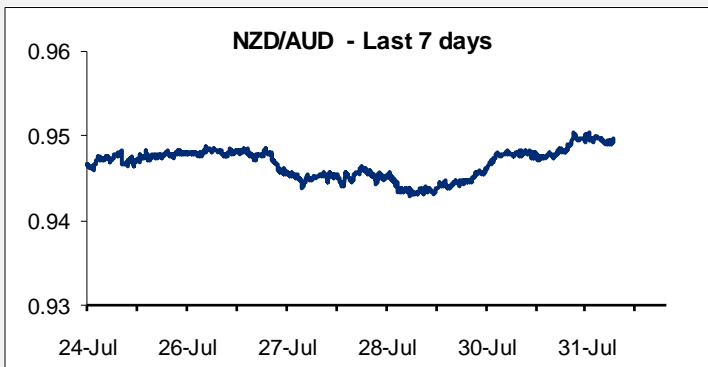
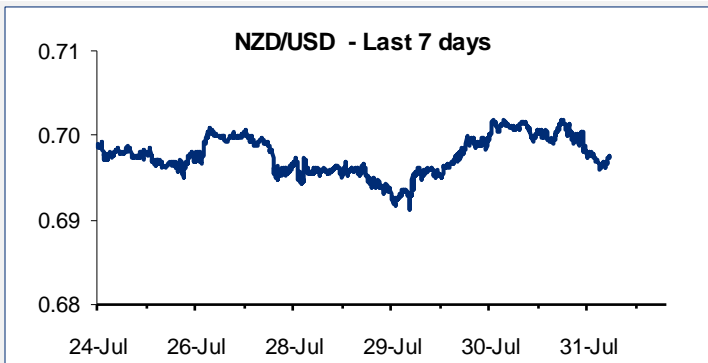
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New York close

Source: Bloomberg

**NZD exchange rates**

31/07/2021	NY close	Prev. NY close
USD	0.6974	0.701
GBP	0.5016	0.5022
AUD	0.9496	0.9478
EUR	0.5875	0.5897
JPY	76.52	76.75
CAD	0.8700	0.8726
CHF	0.6318	0.6352
DKK	4.3705	4.3862
FJD	1.4517	1.4556
HKD	5.4201	5.4470
INR	51.90	52.07
NOK	6.1466	6.1213
PKR	113.28	112.84
PHP	34.88	35.27
PGK	2.4574	2.4596
SEK	5.9917	5.9986
SGD	0.9446	0.9485
CNY	4.5062	4.5259
THB	22.92	23.05
TOP	1.5518	1.5661
VUV	77.38	77.69
WST	1.7873	1.7980
XPF	69.97	70.36
ZAR	10.1834	10.2040



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.71	-0.41
3 Months	-4.24	-3.74
6 Months	-12.98	-11.98
9 Months	-25.98	-23.88
1 Year	-41.00	-39.00

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.92	-2.19
3 Months	-9.96	-9.01
6 Months	-26.62	-24.43
9 Months	-46.00	-41.61
1 Year	-67.03	-62.03

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