

2 September 2021



## Events Round-Up

AU: GDP (q/q%), Q2: 0.7 vs. 0.4 exp.

CH: Caixin PMI manufacturing, Aug: 49.2 vs. 50.1

EC: Unemployment rate (%), Jul: 7.6 vs. 7.6

US: ADP employment (k), Aug: 374 vs. 625 exp.

US: ISM manufacturing, Aug: 59.9 vs. 58.5 exp.

## Good Morning

Risk appetite is higher at the start of the new month. Bad news is good news, with soft US labour market data providing no smoking gun for an immediate Fed taper of QE, supporting equity markets and driving the USD lower overnight. The AUD has been the best performer, followed by the NZD.

The US ADP private payrolls report showed a much weaker than expected lift of 374k, solidifying the downshift in employment seen in July, where payrolls rose by 326k, attributed to the spread of the delta variant of COVID19. The shortfall of growth in employment had some analysts revising down their expectations for non-farm payrolls at the end of the week. Some reputable analysts now have a projection as low as 400k, with the consensus at 725k. Figures this low likely wouldn't meet the Fed's condition of "further substantial progress" to allow a tapering of asset purchases as soon as the September meeting, delaying any tapering announcement to at least November.

The US ISM manufacturing index unexpectedly rose to 59.9, but with a mixed underbelly. New orders were strong, rising to 66.7, but the employment index fell to 49.0, the lowest reading since November, the latter another possible indicator that the labour market has lost some momentum. Supply chain issues remain a predominant feature of the survey and these aren't likely to disappear in a hurry. Manufacturing PMIs across South East Asia, a hub of global manufacturing including Indonesia, Vietnam, Thailand, Philippines and Malaysia, are all well below 50 due to factory closures amidst the spread of the delta variant. China's alternative manufacturing PMI measured by Caixin, which captures smaller businesses, fell below the 50 mark to 49.2, where again factory closures would have been a factor with the government trying to stamp out the virus.

The hiccup in global supply chains is still seen to be a temporary phenomenon and the market has got used to

the idea so this thematic is no longer holding back risk appetite. Global equity markets have kicked off September on a positive note, with the S&P500 currently up 0.2%, following a 0.5% gain in the Euro Stoxx 600 and solid gains in key markets in Asia. The US 10-year rate got as high as 1.33% at the NZ close, but the softer US labour market indicators have seen it fall to 1.28% overnight, currently back at 1.30%.

OPEC+ held one of its quickest meetings in history, agreeing to stick to the plan of gradually increasing oil production through the next year, unwinding the cuts implemented at the height of the pandemic. A 400,000 barrels per day lift in supply is due next month. Brent crude is little changed for the day at USD0.71.50 per barrel.

In currency markets, the USD has been the worst of the majors overnight, albeit with the BBDXY index only showing a moderate fall of 0.25% for the day. The AUD leads the charge higher, up 0.8% overnight to 0.7375, a further sign that it was far too oversold in late August. There was little reaction to the stronger than expected Q2 GDP print of 0.7% q/q, given the likelihood that Q3 will print well into negative territory, with NAB's current estimate at minus 3½% q/q.

The NZD has recovered further, up 0.5% overnight to 0.7070, getting closer to the first resistance level of 0.71. A break of that would see the technicians eyeing up the 0.7315 mark, which was the resistance level through much of the first half of the year. The relatively stronger AUD sees NZD/AUD back below the 0.96 mark. The NZD shows small overnight gains on the crosses.

Of some interest for keen central bank watchers, yesterday the central bank of Chile raised its policy rate by a larger than expected 75bps to 1.5%, given its concern about an overheating economy. This followed the Bank of Korea's 25bps hike to 0.75% last week (which surprised half the market), to rein in surging household debt and house prices, becoming the first developed economic in Asia to kick off a tightening cycle. Also last week, Iceland's central bank raised rates for a second time this cycle. These all paint a picture of small country central banks not afraid to tighten monetary policy amidst a pandemic, and the RBNZ will likely join that esteemed group early next month.

Yesterday, the domestic rates market showed a notable steepening, against the backdrop of higher US rates but

more so alongside a big sell-off in the Australian bond market. RBA buying has recently crunched in Australian rates and the market has been nervous about a possible reversal, and that occurred yesterday with a 9bps move in the 10-year rate. The NZGB 10-year rate rose by 10bps to 1.81%, ahead of the issuance of \$500m today and \$2-3b of a new 30-year bond in the week after next. NZGBs underperformed swaps, with the 10-year swap rate up by “only” 6bps to 2.03%, its highest close since March. The 2-year swap rate rose by 3bps to 1.32%.

In the day ahead only second-tier economic data are released, including NZ terms of trade, US jobless claims and trade balance. The next key release is the US non-farm payrolls report Friday night.

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

## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Terms of trade (q/q%)	Q2	0.3	0.1	10:45
AU	Trade balance (\$b)	Jul	10.0	10.5	13:30
AU	Home loans (m/m%)	Jul	-0.2	-1.6	13:30
US	Initial jobless claims (k)	28-Aug	345	353	00:30
US	Trade balance (\$b)	Jul	-71.0	-75.7	00:30

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.7068	+0.3	0.7042	0.7078	S&P 500	4,530	+0.2	28.5	Oil (Brent)	71.45	-0.3
AUD	0.7371	+0.8	0.7331	0.7384	Dow	35,337	-0.1	23.4	Oil (WTI)	68.46	-0.1
EUR	1.1846	+0.3	1.1796	1.1857	Nasdaq	15,341	+0.5	28.5	Gold	1812.5	-0.2
GBP	1.3780	+0.2	1.3744	1.3798	Stoxx 50	4,227	+0.7	29.0	HRC steel	1939.0	-0.3
JPY	109.94	-0.1	109.88	110.42	FTSE	7,150	+0.4	22.0	CRB	218.2	-0.6
CAD	1.2615	-0.0			DAX	15,824	-0.1	22.0	Wheat Chic.	713.5	-1.2
NZD/AUD	0.9589	-0.5			CAC 40	6,759	+0.5	36.9	Sugar	19.67	-0.9
NZD/EUR	0.5967	-0.0			Nikkei	28,451	+1.3	22.4	Cotton	94.15	+0.3
NZD/GBP	0.5129	+0.1			Shanghai	3,567	+0.7	4.8	Coffee	195.7	-0.1
NZD/JPY	77.71	+0.2			ASX 200	7,527	-0.1	24.1	WM powder	3560.0	+0.3
NZD/CAD	0.8916	+0.3			NZX 50	13,243	+0.2	11.3	<b>Australian Futures</b>		
NZ TWI	74.89	+0.1							3 year bond	99.705	-0.02
									10 year bond	98.81	-0.01

Interest Rates						
	Rates		Swap Yields		Benchmark 10 Yr Bonds	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day
USD	0.25	0.12	0.30	1.32	USD	1.30 -0.01
AUD	0.10	0.01	0.22	1.37	AUD	1.24 0.09
NZD	0.25	0.50	1.31	2.01	NZD	1.81 0.08
EUR	0.00	0.06	-0.48	-0.01	GER	-0.37 0.01
GBP	0.10	0.07	0.48	0.87	GBP	0.69 -0.02
JPY	-0.05	-0.10	-0.02	0.06	JPY	0.03 0.01
CAD	0.25	0.45	0.80	1.67	CAD	1.19 -0.03

NZ Government Bonds			NZ Swap Yields		
	Last	% Year		Last	% Year
NZGB 5 1/2 04/15/23	0.93	0.02	1 year	0.98	0.02
NZGB 2 3/4 04/15/25	1.30	0.06	2 year	1.32	0.03
NZGB 4 1/2 04/15/27	1.49	0.08	5 year	1.70	0.05
NZGB 3 04/20/29	1.67	0.08	7 year	1.84	0.06
NZGB 1 1/2 05/15/31	1.81	0.10	10 year	2.03	0.06
NZGB 2 3/4 04/15/37	2.33	0.11	15 year	2.29	0.06
NZGB 1 3/4 05/15/41	2.61	0.11			

\* 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 06:58

Source: Bloomberg

## NZD exchange rates

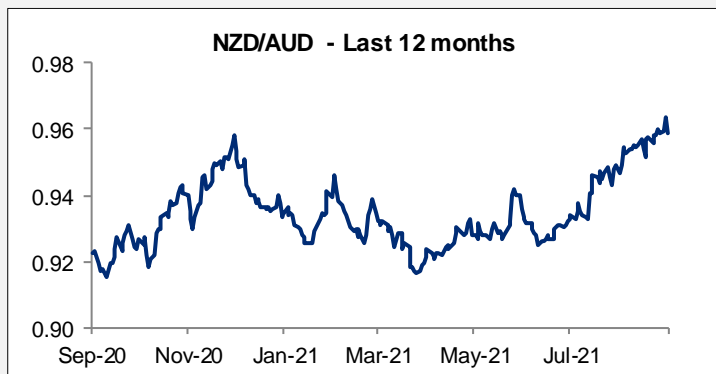
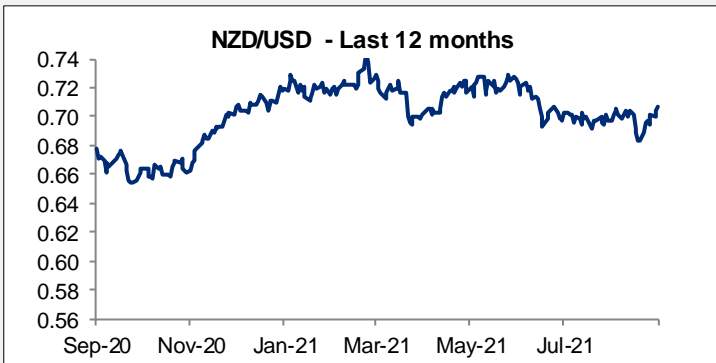
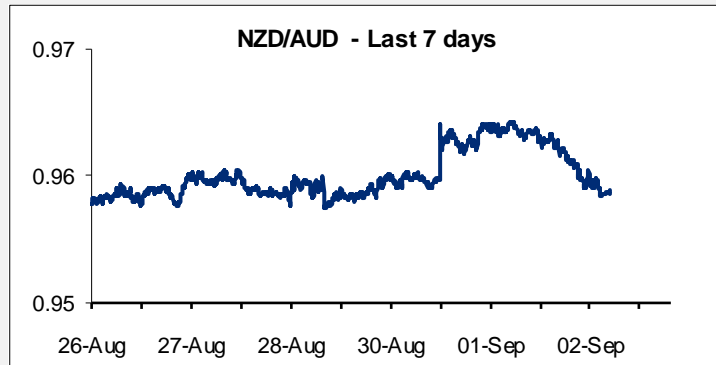
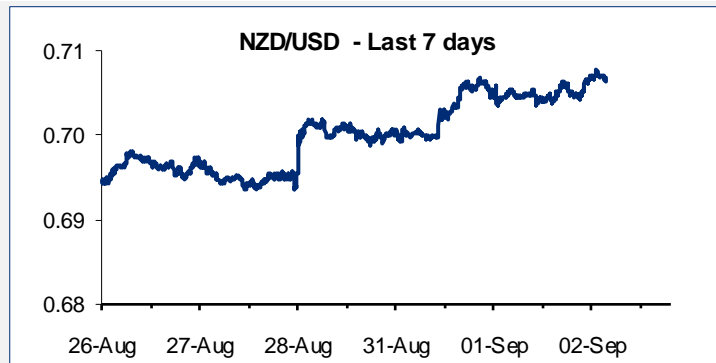
2/09/2021 6:58 am		Prev. NY close
USD	0.7068	0.7045
GBP	0.5129	0.5122
AUD	0.9589	0.9630
EUR	0.5967	0.5966
JPY	77.71	77.51
CAD	0.8916	0.8888
CHF	0.6467	0.6447
DKK	4.4366	4.4364
FJD	1.4762	1.4723
HKD	5.4974	5.4790
INR	51.66	51.43
NOK	6.1427	6.1271
PKR	117.94	115.83
PHP	35.40	35.05
PGK	2.4826	2.4719
SEK	6.0826	6.0755
SGD	0.9500	0.9475
CNY	4.5659	4.5516
THB	22.87	22.71
TOP	1.5714	1.5669
VUV	78.27	78.25
WST	1.8059	1.8044
XPF	71.52	71.29
ZAR	10.1877	10.2323

## NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.19	0.13
3 Months	-3.87	-3.34
6 Months	-13.77	-12.77
9 Months	-30.34	-28.64
1 Year	-51.59	-49.59

## NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.30	-1.65
3 Months	-9.80	-8.66
6 Months	-28.57	-26.50
9 Months	-53.71	-50.11
1 Year	-84.20	-79.53



## 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.