

3 August 2021



## Events Round-Up

CH: Caixin PMI manufacturing, Jul: 50.3 vs. 51.0 exp.

US: ISM manufacturing, Jul: 59.5 vs. 61.0 exp.

## Good Morning

The key market mover to start the new week has been a tumble in US Treasury yields, with the 10-year rate trading below 1.15%, following a slightly softer than expected US ISM manufacturing index. Oil prices fell by over 3% after the report and gains for the S&P500 were pared. In currency markets, the AUD and JPY have outperformed, a combo not often seen, while the NZD has tracked sideways.

The US ISM manufacturing index fell for a second month in July to 59.5, down from 60.6 in June and shy of the expected increase to 61.0. The new orders and employment components pushed higher and, while production was lower, the index of customer inventories fell to a record low, boding well for future output. The industry comments in the release continued to convey the message of production constraints, shortages of raw materials and difficulty in finding labour.

While the ISM survey suggests that growth might have peaked, the level remains historically high. So while the survey suggests little to fear itself, it follows other evidence of "peak growth", the softer official China PMI manufacturing survey at weekend and the Caixin version yesterday. After the ISM survey was published, US Treasury yields began to tumble, sending the 10-year rate down 7bps to a low of 1.1475%. The rate has currently recovered to 1.17%. down 5bps from the NZ close. With the 2-year rate only down slightly, the 2s10s curve has flattened to around 100bps.

The US debt ceiling suspension officially ended at the weekend so expect to hear more about this over coming weeks and months until a new ceiling is agreed. Until then, debt will be capped at the current level of \$28.5 trillion and special measures to hold it at that level have already begun. The US Senate is heading toward passage this week of a \$550b infrastructure bill, with Majority Leader Schumer saying that it would pass "in a matter of days". The cost of the programme will not be met by raising taxes but by various means such as selling oil from the Strategic Petroleum Reserve, tapping unspent funds previously

allocated elsewhere and extending some budget cuts far into the future.

China is seeing the biggest outbreak of COVID19 in six months, with a broad spread of new cases spanning almost half of the 32 provinces. Cases numbers are up over 300 so far, but as we've seen with the delta variant elsewhere, numbers can escalate quickly and its wide spread is of some concern.

Oil prices tumbled following the release of the ISM survey, driving Brent crude down over 3% to a low of USD72.30, with the survey adding to some concern about potentially weaker demand alongside reports of spreading COVID19 across Asia.

In currency markets the two top performing majors are JPY and AUD, an unlikely duo. The 0.4% fall in USD/JPY to 109.30 we can put down to weaker risk appetite and lower rates, while the 0.3% lift in AUD to 0.7365 represents a small recovery after being the biggest loser through July, with some traders noting a squaring of positions ahead of the RBA announcement this afternoon.

The NZD is flat at 0.6975, trading sideways centred at that level and within a 40pip range. EUR and GBP also show little movement, while lower oil prices have dragged down CAD by about 0.3%. The turnaround in fortunes for the AUD has seen the NZD/AUD cross fall from above the 0.95 mark to start the week, down to 0.9470.

The domestic rates market was quiet yesterday with the NSW holiday in Australia. Rates across the swaps and NZGB curves were flat to within 1bp of Friday's close. The Australian 10-year bond future is down about 4bps in yield since the NZ close, which will set the tone for the NZ market open.

The RBA policy update this afternoon comes amidst a major lockdown and thus deterioration in domestic economic conditions since the last less-dovish missive a month ago. The consensus seems to be that the Bank will reverse its decision to taper bond purchases from \$5b to \$4b a week from September. If that's the case, the optics will be that the RBA is helping support the recovery, but the reality is that back in the real world, fiddling with QE is pretty meaningless.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	Home loans value (m/m%)	Jun	2.0	4.9	13:30
AU	Building approvals (m/m%)	Jun	-4.0	-7.1	13:30
AU	RBA cash rate target (%)	Jul	0.1	0.1	16:30
AU	RBA 3-yr yield target	Jul	0.1	0.1	16:30
NZ	CoreLogic house prices (y/y%)	Jul		22.8	18:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.6973	-0.0	0.6964	0.6993	S&P 500	4,400	+0.1	34.5	Oil (Brent)	72.81	-3.5
AUD	0.7363	+0.3	0.7350	0.7382	Dow	34,942	+0.0	32.2	Oil (WTI)	71.16	-3.8
EUR	1.1872	+0.0	1.1865	1.1897	Nasdaq	14,729	+0.4	37.1	Gold	1813.8	+0.1
GBP	1.3890	-0.1	1.3876	1.3933	Stoxx 50	4,117	+0.7	29.7	HRC steel	1859.0	-1.5
JPY	109.26	-0.4	109.19	109.75	FTSE	7,082	+0.7	20.1	CRB	215.7	-1.1
CAD	1.2513	+0.3			DAX	15,569	+0.2	26.4	Wheat Chic.	740.8	+3.9
NZD/AUD	0.9470	-0.2			CAC 40	6,676	-0.2	39.6	Sugar	17.95	+0.2
NZD/EUR	0.5873	-0.1			Nikkei	27,781	+1.8	25.2	Cotton	89.99	+0.2
NZD/GBP	0.5020	+0.1			Shanghai	3,464	+2.0	2.9	Coffee	172.8	-3.8
NZD/JPY	76.19	-0.4			ASX 200	7,491	+1.3	26.4	WM powder	3800.0	-0.1
NZD/CAD	0.8725	+0.3			NZX 50	12,703	+0.9	8.9	<b>Australian Futures</b>		
NZ TWI	73.96	-0.1							3 year bond	99.73	0.02
									10 year bond	98.87	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	Last	Last	Last		
USD	0.25	0.12	0.25	1.20	USD	1.17	-0.05	NZGB 5 1/2 04/15/23	0.72	0.01	1 year	0.83	0.01
AUD	0.10	0.02	0.18	1.24	AUD	1.18	0.00	NZGB 2 3/4 04/15/25	1.01	0.01	2 year	1.05	-0.00
NZD	0.25	0.50	1.05	1.79	NZD	1.53	0.00	NZGB 4 1/2 04/15/27	1.21	0.01	5 year	1.45	-0.01
EUR	0.00	0.06	-0.50	-0.10	GER	-0.49	-0.03	NZGB 3 04/20/29	1.42	0.00	7 year	1.62	-0.01
GBP	0.10	0.07	0.42	0.78	GBP	0.52	-0.04	NZGB 1 1/2 05/15/31	1.53	0.01	10 year	1.80	-0.01
JPY	-0.05	-0.10	-0.03	0.04	JPY	0.02	-0.01	NZGB 2 3/4 04/15/37	2.00	0.01	15 year	2.02	-0.01
CAD	0.25	0.44	0.78	1.66	CAD	1.20	-0.00	NZGB 1 3/4 05/15/41	2.27	0.01			

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

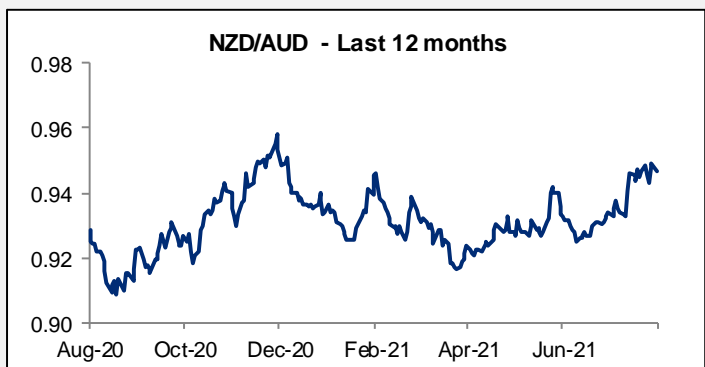
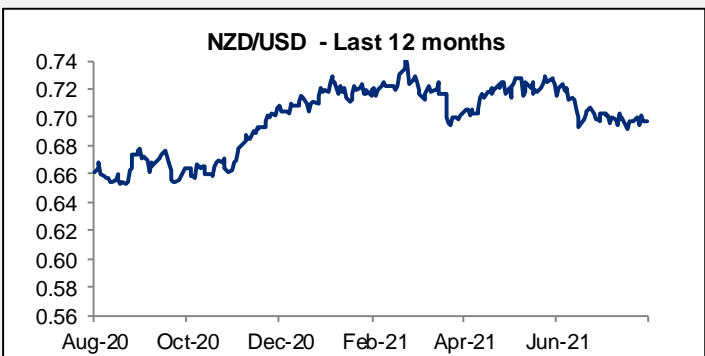
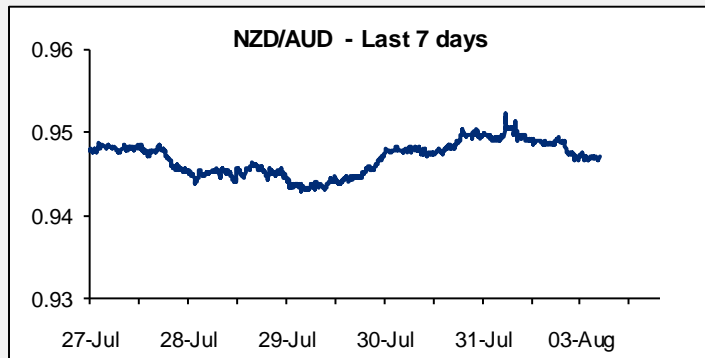
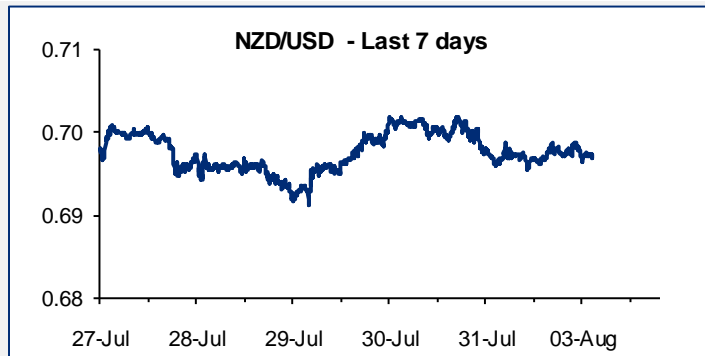
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:54

Source: Bloomberg

**NZD exchange rates**

3/08/2021	6:55 am	Prev. NY close
USD	0.6973	0.6974
GBP	0.5020	0.5016
AUD	0.9470	0.9496
EUR	0.5873	0.5875
JPY	76.19	76.52
CAD	0.8725	0.8700
CHF	0.6311	0.6318
DKK	4.3689	4.3705
FJD	1.4563	1.4517
HKD	5.4205	5.4201
INR	51.84	51.90
NOK	6.1572	6.1466
PKR	113.26	112.26
PHP	34.81	34.88
PGK	2.4467	2.4574
SEK	5.9916	5.9917
SGD	0.9434	0.9446
CNY	4.5060	4.5062
THB	22.97	22.92
TOP	1.5572	1.5518
VUV	77.29	77.38
WST	1.7831	1.7873
XPF	70.10	69.97
ZAR	10.0779	10.1834



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.79	-0.44
3 Months	-4.26	-3.75
6 Months	-13.37	-12.37
9 Months	-26.40	-24.40
1 Year	-41.90	-39.90

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.72	-1.97
3 Months	-9.91	-8.78
6 Months	-26.80	-24.70
9 Months	-46.25	-42.25
1 Year	-67.86	-63.14

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