

3 September 2021



## Events Round-Up

NZ: Terms of trade (q/q%), Q2: 3.3 vs. 0.3 exp.

US: Initial jobless claims (k), Aug 28<sup>th</sup>: 340 vs. 345 exp.

US: Trade balance (\$b), Jul: -70.1 vs. -70.9 exp.

US: Factory orders (m/m%), Jul: 0.4 vs. 0.3 exp.

## Good Morning

Markets have been relatively quiet overnight as investors wait on the US nonfarm payrolls report tonight. The USD has continued to decline, hitting a one-month low overnight. The NZD has outperformed, breaking above 0.71 overnight, to a 2½ month high, while the AUD has reached 0.74. Bond yields and equities are little changed.

Markets have been in their typical pre-payrolls holding pattern overnight. Expectations for payrolls growth have been coming down over the past week, in-line with the softening in some leading indicators, although the median analyst expectation on Bloomberg still sits at a healthy 725k. With Fed Chair Powell having explicitly linked the timing of a tapering announcement with labour market developments, the market is likely to be sensitive to a major surprise in either direction. The consensus is that the Fed will wait until November to make a tapering announcement. A very strong payrolls report might see the market contemplate a September tapering announcement, although the risks to this payrolls report appear more skewed to the downside.

There has been little in the way of economic data to move the market. US initial jobless claims hit a new post-Covid low of 340k and the broader trend is still lower, indicative of continued improvement in the labour market.

The main feature of overnight market moves has been the continued decline in the USD. The Bloomberg DXY index is 0.25% lower overnight and down to its lowest level in a month. The BBDXY has now fallen around 1% since Fed Chair Powell's dovish Jackson Hole address.

Commodity currencies have outperformed overnight, with the NZD topping the leader board with a gain of 0.6% and the AUD, CAD, and NOK all up by around 0.5% over the past 24 hours. The AUD has touched 0.74 for the first time in almost a month. The safe-haven JPY and Swiss franc are barely changed over the past 24 hours.

Against a backdrop of broader USD weakness, the NZD has broken above the top of the roughly 0.69 – 0.71 range that held between mid-June and mid-August. The NZD is trading this morning around 0.7115, its highest level in 2½ months. In the near-term, tonight's payrolls report will clearly be key as to whether the NZD pushes on or reverts into its familiar 0.69 – 0.71 range. Looking further ahead, our forecasts have the NZD continuing to head north by the end of the year, conditioned on market concerns around the global growth outlook subsiding.

The NZD is stronger on all the crosses, with NZD/AUD is sitting just above the 0.96 mark, NZD/EUR trading just below 0.60, near the top of its multi-month range, and NZD/JPY and NZD/GDP at two-month and three-month highs respectively.

In terms of fundamental drivers of the NZD, one needs to look no further than yesterday's merchandise terms of trade data, which matched its record high in Q2. Export prices were up a very strong 8.3% on the quarter, but what caught our attention, from an inflation perspective, was the 4.8% lift in import prices. The 6.3% rise in imported consumption goods suggests clear upside risk to our already-high 4.3% year-end CPI forecast.

Equity and bond market moves have been subdued overnight. The S&P500 is up just 0.1%, led by gains in the energy sector, while the US 10-year rate is barely changed, at 1.29%. On a day of little fresh news, former 'bond king' Bill Gross has grabbed the headlines by declaring that US Treasury bonds should be put in the "investment garbage can." While we agree Treasury yields are likely heading higher in the medium-term, Gross has had a few high profile bad calls in the past, such as his early 2010 proclamation that UK gilts, then yielding around 4%, were "resting on a bed of nitroglycerine". They are now at 0.68%.

The 10-year NZ government bond yield was 1bp higher yesterday, to close at its highest level since April 2019, at 1.93%. New Zealand bond spreads to other markets continue to widen out, with the 10-year spread to Australia hitting a fresh 5½ year high of 71bps amidst the divergent cash rate outlooks for the two central banks and with the RBA still buying bonds at a pace well in excess of weekly issuance. Medium-term OCR expectations continue to edge higher, with market pricing for year-end 2023 around 1.75% now, which is closer to the RBNZ's circa 2% projection.

49 new Covid-19 community cases were announced yesterday, all in Auckland, reaffirming the downward trend after the previous day's blip higher. The market now seems to have become desensitized to the daily case numbers, with little immediate impact on the currency or rates.

Nonfarm payrolls will grab all the attention overnight. Also released is the ISM Services index which is expected to soften from what was an all-time (post-1997) high in July. The Caixin Services PMI is released this afternoon and is expected to fall, like the official PMI released earlier in the week.

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## Coming Up

		Period	Cons.	Prev.	NZT
CH	Caixin China PMI Services	Aug	52	54.9	13:45
EC	Retail Sales (m/m%)	Jul	0	1.5	21:00
US	Change in Nonfarm Payrolls (k)	Aug	725	943	00:30
US	Unemployment Rate (%)	Aug	5.2	5.4	00:30
US	Average Hourly Earnings (y/y%)	Aug	4	4	00:30
US	ISM Services Index	Aug	61.8	64.1	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	0.7115	+0.6	0.7076	0.7120	CHF	0.9145	-0.1	S&P 500	4,531	+0.2	26.5	Oil (Brent)	72.80	+1.7
AUD	0.7403	+0.5	0.7380	0.7409	SEK	8.573	-0.5	Dow	35,382	+0.2	21.6	Oil (WTI)	69.75	+1.7
EUR	1.1875	+0.3	1.1837	1.1875	NOK	8.658	-0.4	Nasdaq	15,322	+0.1	27.1	Gold	1809.0	-0.3
GBP	1.3834	+0.5	1.3772	1.3840	HKD	7.771	-0.1	Stoxx 50	4,232	+0.1	26.8	HRC steel	1916.0	-1.2
JPY	109.95	-0.1	109.95	110.09	CNY	6.457	-0.1	FTSE	7,164	+0.2	20.6	CRB	220.0	+0.9
CAD	1.2554	-0.5			SGD	1.342	-0.2	DAX	15,841	+0.1	19.6	Wheat Chic.	717.3	+0.4
NZD/AUD	0.9611	+0.1			IDR	14,273	-0.1	CAC 40	6,763	+0.4	34.4	Sugar	19.90	+1.2
NZD/EUR	0.5992	+0.3			THB	32.45	+0.4	Nikkei	28,544	+0.3	21.6	Cotton	95.14	+1.1
NZD/GBP	0.5143	+0.2			KRW	1,161	+0.3	Shanghai	3,597	+0.8	6.3	Coffee	194.4	-0.7
NZD/JPY	78.23	+0.6			TWD	27.70	-0.1	ASX 200	7,486	-0.5	22.5	WM powder	3575.0	+0.4
NZD/CAD	0.8932	+0.1			PHP	49.85	-0.4	NZX 50	13,280	+0.0	10.2	<b>Australian Futures</b>		
NZ TWI	75.27	+0.5										3 year bond	99.715	0.00
												10 year bond	98.82	0.01
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	1.31	USD	1.29	-0.00	NZGB 5 1/2 04/15/23	0.95	0.01	1 year	0.99	0.01	
AUD	0.10	0.01	0.22	1.36	AUD	1.21	-0.04	NZGB 2 3/4 04/15/25	1.32	0.02	2 year	1.33	0.01	
NZD	0.25	0.49	1.33	2.02	NZD	1.82	0.02	NZGB 4 1/2 04/15/27	1.51	0.02	5 year	1.71	0.01	
EUR	0.00	0.06	-0.48	-0.02	GER	-0.39	-0.01	NZGB 3 04/20/29	1.68	0.02	7 year	1.84	0.00	
GBP	0.10	0.07	0.47	0.86	GBP	0.68	-0.01	NZGB 1 1/2 05/15/31	1.82	0.01	10 year	2.02	-0.01	
JPY	-0.04	-0.09	-0.02	0.06	JPY	0.04	0.01	NZGB 2 3/4 04/15/37	2.33	0.00	15 year	2.28	-0.01	
CAD	0.25	0.45	0.79	1.65	CAD	1.17	-0.01	NZGB 1 3/4 05/15/41	2.61	0.00				

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

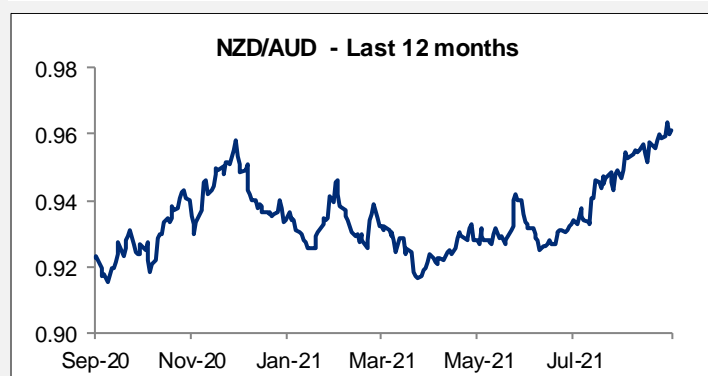
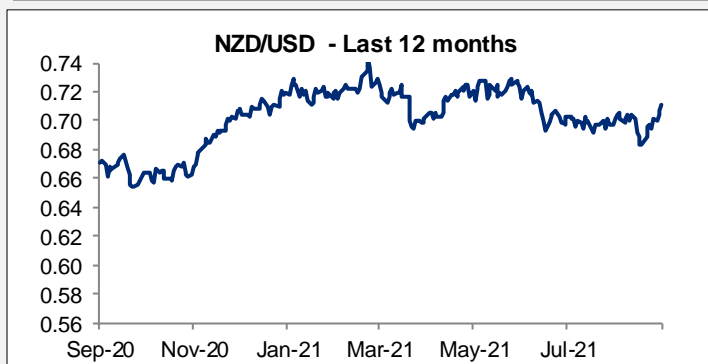
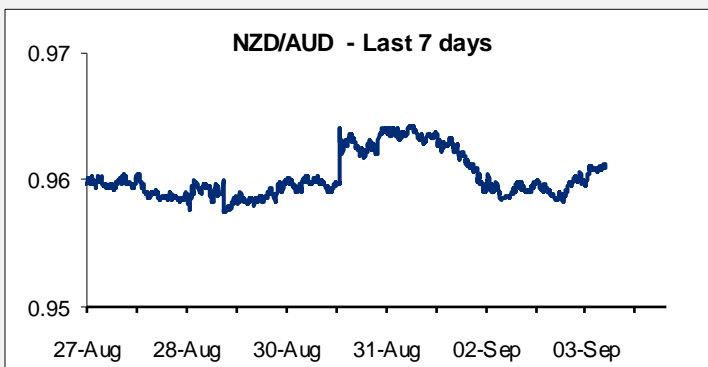
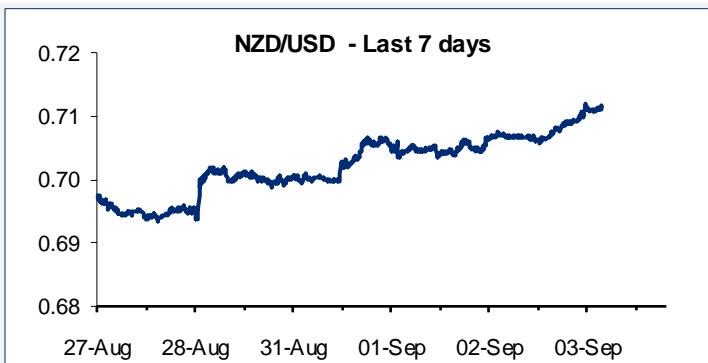
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:24

Source: Bloomberg

**NZD exchange rates**

3/09/2021	7:01 a.m.	Prev. NY close
USD	0.7115	0.707
GBP	0.5141	0.5134
AUD	0.9610	0.9598
EUR	0.5992	0.5972
JPY	78.24	77.78
CAD	0.8932	0.8922
CHF	0.6507	0.6470
DKK	4.4556	4.4407
FJD	1.4835	1.4757
HKD	5.5290	5.4983
INR	51.99	51.67
NOK	6.1559	6.1477
PKR	118.72	116.24
PHP	35.50	35.41
PGK	2.4947	2.4833
SEK	6.0995	6.0891
SGD	0.9550	0.9506
CNY	4.5938	4.5671
THB	23.09	22.88
TOP	1.5808	1.5718
VUV	78.59	78.29
WST	1.8094	1.8084
XPF	71.91	71.52
ZAR	10.3037	10.1901



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.17	0.17
3 Months	-4.12	-3.58
6 Months	-13.97	-12.97
9 Months	-31.35	-29.35
1 Year	-52.31	-50.31

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.21	-1.50
3 Months	-10.13	-9.00
6 Months	-29.03	-26.90
9 Months	-55.15	-51.15
1 Year	-85.01	-80.37

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