

5 August 2021



## Events Round-Up

NZ: QES avg hrly earnings (q/q%), Q2: 0.7 vs. 0.8 exp.

NZ: LCI pvt wages x overtime (q/q%), Q2: 0.9 vs. 0.7 exp.

NZ: Employment (q/q%), Q2: 1.0 vs. 0.7 exp.

NZ: Unemployment rate (%), Q2: 4.0 vs. 4.4 exp.

AU: Real retail sales (q/q%), Q2: 0.8 vs. 0.8 exp.

CH: Caixin PMI services, Jul: 54.9 vs. 50.5 exp.

US: ADP employment change (k), Jul: 330 vs. 690 exp.

US: ISM services index, Jul: 64.1 vs. 60.5 exp.

## Good Morning

Overnight US economic data and comments by Fed vice-chair Clarida caused a bumpy ride for US Treasuries, with little net change in the 10-year rate overall. Some modest USD strength overnight has been evident, although the NZD has managed to hold onto its gains seen yesterday after the very strong labour market prints and lift in domestic rates across the curve.

US Treasuries whipsawed overnight, with a soft US ADP employment followed by a strong ISM services print and comments by Clarida, which were seen as slightly more hawkish than expected. From a level of around 1.18% through much of the NZ session, the 10-year rate dived down to just over 1.125% post the ADP employment print, before shooting up to 1.21% after the ISM services report and soundbites from Clarida. The rate has since settled back down to 1.18%, now showing little net change for the day. The movement suggests some degree of sensitivity to employment data and remarks from key Fed officials.

ADP private payrolls rose by much weaker than expected at 330k, the smallest gain since February. The data comes ahead of the key non-farm payrolls report at the end of the week, where the consensus sits at a gain of 870k. Recently the ADP measure hasn't provided a particularly good signal.

Countering that measure, the ISM services index rose to a record high of 64.1, well above expectations, with a 7-point gain in business activity and more moderate gains in new orders and employment, the latter up from 49.3 to 53.8. The industry comments were peppered with supply shortages, slower delivery times, difficulty finding labour and rising cost and inflationary pressure (sound familiar?),

with the prices paid measure jumping to a 16-year high of 82.3.

Fed vice-chair Clarida was open about his expectations for monetary policy saying that based on his outlook for inflation and employment then the "necessary conditions for raising the target range for the federal funds rate will have been met by year-end 2022", cementing in market expectations that the Fed Funds rate would likely rise from early 2023. He noted that if growth stayed strong then he'd favour the Fed to make an announcement later this year on tapering bond purchases. He added that "there are risks to any outlook, and I believe that the risks to my outlook for inflation are to the upside".

While the Treasury market has whipsawed, the US equity market has been less volatile, opening on the soft side after the ADP employment print and remaining that way, with the S&P500 currently down 0.2%. By contrast, the Euro Stoxx 600 index had another good day, up 0.6% to a fresh record high. The final estimate of the euro area composite PMI was revised down slightly to 60.2, but this still represented the fastest growth since 2006.

In currency markets the USD was on the soft side until the strong ISM services print and Clarida's remarks got the market's attention and sent it higher. Net movements have been small and the BBDXY index is up just 0.2% for the day. The NZD enjoyed strong support after the NZ labour market reports were released (see below) and traded up to an overnight high of 0.7089. Post the USD rebound, the NZD has since retreated back to 0.7050, little changed from the NZ close, but reinforcing the 0.71 level as a mark as technical resistance.

Being the strongest major for the day and holding its own against the USD overnight, NZD crosses are all higher. NZD/AUD has steadily risen up to 0.9550. JPY has been the weakest of the majors, seeing NZD/JPY up 0.9% for the day to 77.2.

NZ's Q2 labour market data were stronger across a range of key indicators, with a combination of strong employment growth, rising labour force participation, a plunge in the unemployment rate to 4.0% and signs of strong and rising wage inflation. It all pointed in the direction of what many leading indicators have suggested and what businesses have been telling us for several months now. And all indicative of an over-stimulated, over-heated economy.

CPI, wages and employment indicators now all suggest the same thing, that in an ideal world, monetary policy probably already ought to be in restrictive territory, with an OCR north of say, 2%, certainly not still at an emergency level, stoking demand further in an economy facing widespread capacity constraints. The implications for policy are crystal clear, that the RBNZ better get a move on. Thus, the data seals the deal for an August rate hike, the only question now being how quickly the RBNZ attempts to re-normalise policy.

The market gave its view, by bringing forward expected rate hikes, with August OIS up 7bps to 0.54%, consistent with full pricing of a 25bps hike and a 16% chance of a larger 50bps move out of the starting blocks. With November OIS at 0.91%, the market sees a good chance of three 25bps rate hikes before year-end. Expectations of an earlier and more aggressive tightening cycle saw rates higher across the curve, with the 2-year swap rate up 11bps to 1.23% and the 10-year rate up 7bps to 1.87%. The 10-yr NZGB closed up 8bps to 1.61%.

In COVID19 news overnight, Israel, which has led the world with its vaccination programme, has seen new daily cases

surge to over 3000 and has reimposed some restrictions to contain the spread. These include outdoor mask use for large groups and sending half of public servants home.

Tonight the Bank of England provides a policy update and new set of forecasts, but no fireworks are expected, with no change in policy or forward guidance. US jobless claims are expected to nudge lower.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	Trade balance (\$b)	Jun	10.4	9.7	13:30
GE	Factory orders (m/m%)	Jun	2.0	-3.7	18:00
UK	Markit construction PMI	Jul	64.4	66.3	20:30
UK	Bank of England bank rate (%)	Aug	0.1	0.1	23:00
UK	BOE gilt purchase target (£b)	Aug	875	875	23:00
US	Trade balance (\$b)	Jun	-74.1	-71.2	00:30
US	Initial jobless claims (k)	31-Jul	383	400	00:30

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	0.7046	+0.4	0.7036	0.7089	CHF	0.9065	+0.3	S&P 500	4,414	-0.2	33.5		Oil (Brent)	70.34	-2.9
AUD	0.7380	-0.2	0.7370	0.7427	SEK	8.612	+0.1	Dow	34,821	-0.8	29.8		Oil (WTI)	68.10	-3.5
EUR	1.1836	-0.2	1.1833	1.1900	NOK	8.845	+0.4	Nasdaq	14,794	+0.2	35.2		Gold	1809.4	-0.0
GBP	1.3892	-0.2	1.3890	1.3958	HKD	7.776	-0.0	Stoxx 50	4,145	+0.7	27.4		HRC steel	1870.0	+1.6
JPY	109.51	+0.4	108.72	109.67	CNY	6.466	-0.1	FTSE	7,124	+0.3	18.0		CRB	213.5	-0.8
CAD	1.2554	+0.1			SGD	1.351	-0.0	DAX	15,692	+0.9	24.5		Wheat Chic.	728.3	-0.9
NZD/AUD	0.9547	+0.6			IDR	14,313	-0.2	CAC 40	6,746	-0.1	38.0		Sugar	17.93	-0.3
NZD/EUR	0.5953	+0.6			THB	33.14	+0.4	Nikkei	27,584	-0.2	22.5		Cotton	90.72	+0.4
NZD/GBP	0.5072	+0.6			KRW	1,143	-0.4	Shanghai	3,477	+0.8	3.0		Coffee	175.7	+0.5
NZD/JPY	77.16	+0.8			TWD	27.78	-0.4	ASX 200	7,503	+0.4	25.0		WM powder	3600.0	-5.0
NZD/CAD	0.8846	+0.5			PHP	49.76	+0.3	NZX 50	12,797	+0.8	8.8		<b>Australian Futures</b>		
NZ TWI	74.72	+0.5											3 year bond	99.705	0.00
													10 year bond	98.87	0.03

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			
USD	0.25	0.12	0.26	1.20	USD	1.18	0.01	NZGB 5 1/2 04/15/23	0.90	0.13	1 year	1.04	0.13
AUD	0.10	0.02	0.21	1.25	AUD	1.15	-0.01	NZGB 2 3/4 04/15/25	1.15	0.11	2 year	1.23	0.11
NZD	0.25	0.55	1.23	1.87	NZD	1.61	0.08	NZGB 4 1/2 04/15/27	1.33	0.10	5 year	1.56	0.09
EUR	0.00	0.06	-0.50	-0.11	GER	-0.50	-0.02	NZGB 3 04/20/29	1.51	0.08	7 year	1.70	0.08
GBP	0.10	0.07	0.43	0.79	GBP	0.51	-0.01	NZGB 1 1/2 05/15/31	1.61	0.08	10 year	1.87	0.07
JPY	-0.05	-0.10	-0.03	0.03	JPY	0.01	-0.01	NZGB 2 3/4 04/15/37	2.05	0.06	15 year	2.07	0.06
CAD	0.25	0.44	0.79	1.60	CAD	1.14	0.02	NZGB 1 3/4 05/15/41	2.32	0.06			

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

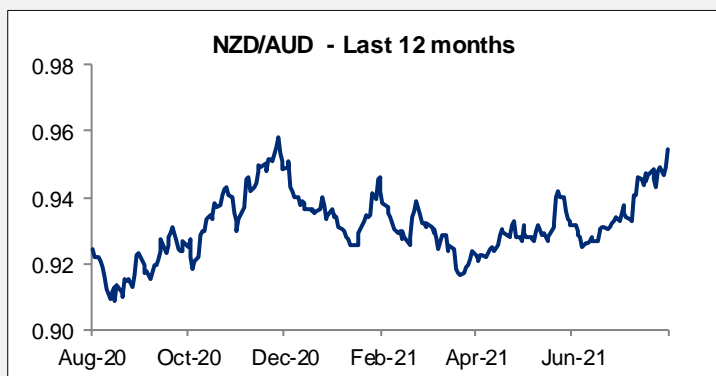
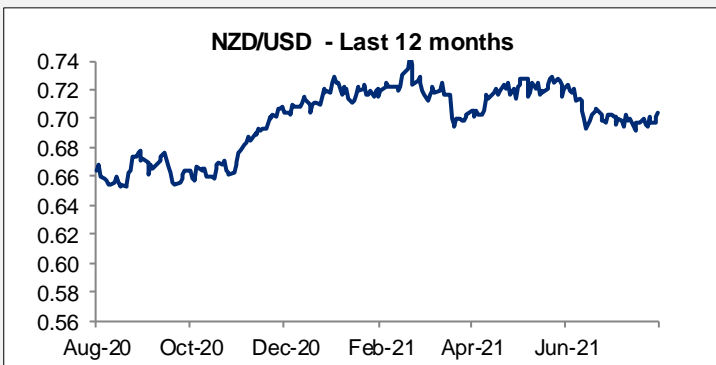
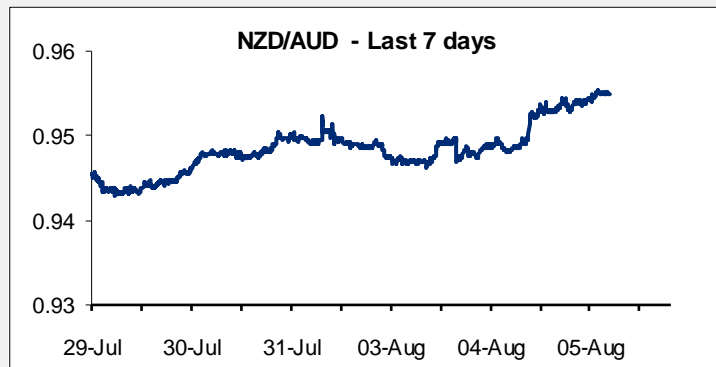
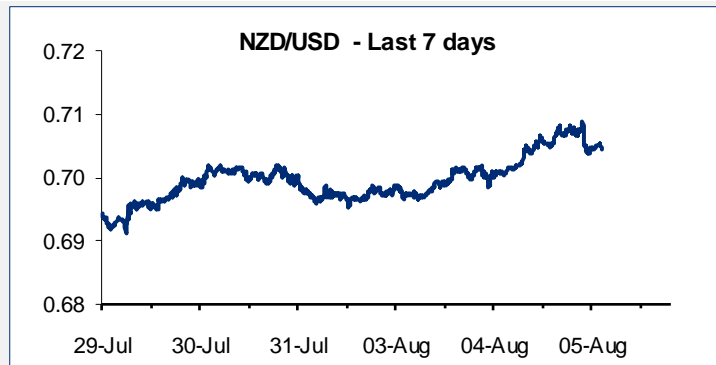
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:54

Source: Bloomberg

**NZD exchange rates**

5/08/2021 6:55 am		Prev. NY close
USD	0.7046	0.7017
GBP	0.5072	0.5042
AUD	0.9547	0.9488
EUR	0.5953	0.5915
JPY	77.16	76.51
CAD	0.8846	0.8799
CHF	0.6387	0.6341
DKK	4.4269	4.3992
FJD	1.4655	1.4567
HKD	5.4787	5.4581
INR	52.27	52.12
NOK	6.2318	6.1827
PKR	115.19	114.82
PHP	35.06	34.81
PGK	2.4723	2.4621
SEK	6.0682	6.0345
SGD	0.9521	0.9482
CNY	4.5561	4.5402
THB	23.34	23.17
TOP	1.5742	1.5684
VUV	77.84	77.77
WST	1.8108	1.7913
XPF	70.83	70.40
ZAR	10.1138	10.0430



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.81	-0.46
3 Months	-6.15	-5.63
6 Months	-18.76	-17.75
9 Months	-35.16	-33.26
1 Year	-54.93	-52.93

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.69	-1.90
3 Months	-12.60	-11.46
6 Months	-34.27	-31.95
9 Months	-58.03	-54.21
1 Year	-85.49	-80.83

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