

6 August 2021



Events Round-Up

UK: Bank of England base rate (%), Aug: 0.1 vs. 0.1 exp.

UK: BoE gilt purchase target (£b), Aug: 875 vs. 875 exp.

US: Trade balance (\$b), Jun: -75.7 vs. -74.1 exp.

US: Initial jobless claims (k), 31-Jul: 385 vs. 383 exp.

Good Morning

Equity markets and bond yields are both higher overnight while the USD has drifted lower. Movements across asset classes have been limited though as the market waits on the all-important US nonfarm payrolls report tonight. The GBP has outperformed after the Bank of England suggested that “modest” rate hikes might be needed from later next year although, again, the moves have been small. The NZD has tracked around the 0.7060 level overnight while NZ rates took a breather yesterday after their big moves after the labour market data.

Ahead of the nonfarm payrolls report tonight, European and US equity markets have pushed higher. The S&P500 is up 0.4% and hovering just around its recent high while the NASDAQ (+0.7%) and EuroStoxx 600 (+0.4%) have both made fresh record highs. The US 10-year rate has increased 4bps, to 1.22%, and is now some 10bps above the intraday lows from the previous night, after the downside surprise to the ADP employment data. The US 10-year rate has remained rangebound over the past month.

The apparent improvement in market sentiment has come despite more headlines around the spread of the Delta variant. In China, the authorities have added new restrictions, including on trains and subway in Beijing, as more than 500 community cases have been detected across the country. In the US, the FT reports that hospitals in Florida are being overrun by Covid-19 cases, with vaccination rates relatively low in rural areas and the state’s Governor anti masks. Blackrock and Wells Fargo are amongst firms reported to have pushed back the date most workers return to the office amidst the increase in Delta variant cases. Meanwhile in Australia, the state of Victoria entered a snap seven-day lockdown last night after eight new cases were found.

The market hasn’t paid much attention to economic data, which will be quickly forgotten after the payrolls release tonight. For the record, US initial jobless claims dipped

back to near post-Covid lows, although this data series has been affected by seasonality issues of late. The US trade deficit hit a record high in June.

As expected, the Bank of England kept all its policy settings unchanged at its meeting overnight, although there was one dissent against its QE bond buying programme. The Bank’s core view is that current inflation pressures, which are expected to peak at around 4% later this year, will prove transitory (its 2-year ahead inflation forecast is only marginally above the 2% target). Nevertheless, the Bank noted that “some modest tightening” over the next few years was likely to be necessary, with Governor Bailey saying in the press conference that “the MPC takes the risk of persistently higher inflation very seriously”. The 2-year UK government bond yield increased 3bps in response with the market bringing forward the expected timing of the first 25bp rate hike to late-2022 (a 25bp move is more than 50% priced by June next year).

In addition, the Bank of England said it intended to stop reinvesting the proceeds of maturing bonds held via QE, a process often referred to as ‘quantitative tightening’ as it results in a shrinkage of the central bank’s balance sheet, once the cash rate reached 0.5%. The Bank even suggested it would consider actively *selling* bonds, which would be a first for central banks, once the cash rate reached 1%. Longer-term UK gilt yields were unmoved by the discussion around QE though.

Currency moves have been reasonably limited ahead of payrolls, although the GBP has been one of the better performers (+0.3%) following the BoE meeting. Commodity currencies have been the other outperformers, with the CAD and AUD both up 0.4% while the NZD has lagged slightly, up a lesser 0.2%. The NZD has traded a narrow range overnight, centred around 0.7060. The Bloomberg USD index is down just 0.1% overnight.

In other news, Moderna said its Covid-19 vaccine remained 93% effective six months after the second dose. However, it warned that booster shots were likely to be required, with the vaccine’s effectiveness expected to diminish beyond this.

Yesterday was much more subdued in the domestic rates market, a day after the blockbuster NZ employment report. August remains at 0.54%, implying a 16% chance of a 50bp OCR increase at the upcoming MPS, while pricing for end-2021 and end-2022 are around 0.91% and 1.35%

respectively. The 2-year swap rate nudged 1bps higher, to 1.24%, while the curve remained under flattening pressure, with the 10-year rate falling 2bp, to 1.86%. The short end of the NZ curve is likely to move into a holding pattern ahead of the RBNZ MPS on the 18th of August. Government bonds kept pace with swaps yesterday, with yields lower by 1-2bps after another solid tender of bonds.

In the session ahead, the RBA releases its the Statement of Monetary Policy (SoMP) although there is likely to be more focus on what Governor Lowe has to say in his testimony to parliament this morning. Lowe is likely to expand on the RBA's surprise decision to stick with its original tapering plan from September and how the current lockdowns in Australia are factoring into its medium-term economic outlook.

The US monthly nonfarm payrolls report is released tonight, with the consensus looking for an 870k increase in jobs in July, a marginal pickup from June's 850k pace. The unemployment rate is expected to fall from 5.9% to 5.7%.

The market is likely to be sensitive to the report given the Fed has linked the timing of its tapering decision to progress on the labour market front. Canada also releases its monthly labour market report tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA's Lowe Testimony to Parliament Committee				11:00
AU	RBA Statement on Monetary Policy				13:30
GE	Industrial Production (m/m%)	Jun	0.5	-0.3	18:00
US	Change in Nonfarm Payrolls (k)	Jul	870	850	00:30
US	Unemployment Rate (%)	Jul	5.7	5.9	00:30
US	Average Hourly Earnings (y/y%)	Jul	3.9	3.6	00:30
CA	Unemployment Rate (%)	Jul	7.4	7.8	00:30
CA	Hourly Wage Rate (y/y%)	Jul	0.2	0.1	00:30

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	0.7060	+0.2	0.7045	0.7074	CHF	0.9064	-0.0	S&P 500	4,420	+0.4	32.8	Oil (Brent)	71.28	+1.3
AUD	0.7405	+0.4	0.7390	0.7416	SEK	8.613	+0.0	Dow	34,983	+0.5	28.6	Oil (WTI)	69.06	+1.3
EUR	1.1836	-0.0	1.1828	1.1857	NOK	8.806	-0.4	Nasdaq	14,880	+0.7	35.3	Gold	1803.2	-0.4
GBP	1.3930	+0.3	1.3899	1.3949	HKD	7.777	+0.0	Stoxx 50	4,161	+0.4	27.3	HRC steel	1870.0	+0.0
JPY	109.78	+0.3	109.40	109.79	CNY	6.462	-0.1	FTSE	7,120	-0.0	16.6	CRB	215.1	+0.8
CAD	1.2493	-0.4			SGD	1.351	+0.0	DAX	15,745	+0.3	24.4	Wheat Chic.	725.8	-0.4
NZD/AUD	0.9534	-0.1			IDR	14,343	+0.2	CAC 40	6,781	+0.0	37.5	Sugar	18.62	+3.9
NZD/EUR	0.5965	+0.2			THB	33.27	+0.4	Nikkei	27,728	+0.5	23.7	Cotton	91.17	+0.4
NZD/GBP	0.5068	-0.1			KRW	1,144	+0.0	Shanghai	3,467	-0.3	2.4	Coffee	176.9	+0.4
NZD/JPY	77.50	+0.5			TWD	27.76	-0.1	ASX 200	7,511	+0.1	24.3	WM powder	3600.0	+0.0
NZD/CAD	0.8820	-0.2			PHP	50.25	+1.0	NZX 50	12,754	-0.3	8.4	Australian Futures		
NZ TWI	74.81	+0.1										3 year bond	99.695	-0.01
												10 year bond	98.84	-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			
USD	0.25	0.12	0.29	1.24	USD	1.22	0.03	NZGB 5 1/2 04/15/23	0.91	0.02	1 year	1.03	-0.01	
AUD	0.10	0.02	0.23	1.28	AUD	1.16	0.01	NZGB 2 3/4 04/15/25	1.15	-0.00	2 year	1.24	0.01	
NZD	0.25	0.65	1.24	1.86	NZD	1.59	-0.01	NZGB 4 1/2 04/15/27	1.32	-0.01	5 year	1.55	-0.01	
EUR	0.00	0.06	-0.50	-0.11	GER	-0.50	0.00	NZGB 3 04/20/29	1.49	-0.01	7 year	1.69	-0.01	
GBP	0.10	0.07	0.46	0.78	GBP	0.52	0.01	NZGB 1 1/2 05/15/31	1.59	-0.02	10 year	1.86	-0.02	
JPY	-0.05	-0.10	-0.03	0.04	JPY	0.01	0.00	NZGB 2 3/4 04/15/37	2.04	-0.01	15 year	2.06	-0.01	
CAD	0.25	0.44	0.82	1.64	CAD	1.17	0.04	NZGB 1 3/4 05/15/41	2.30	-0.02				

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

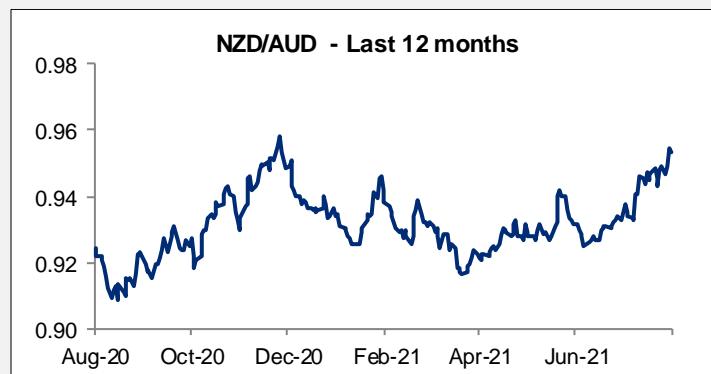
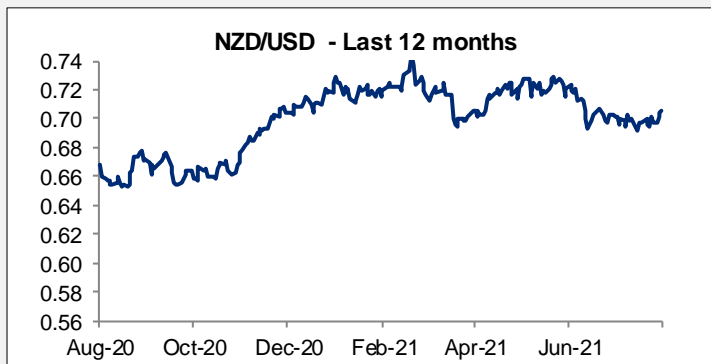
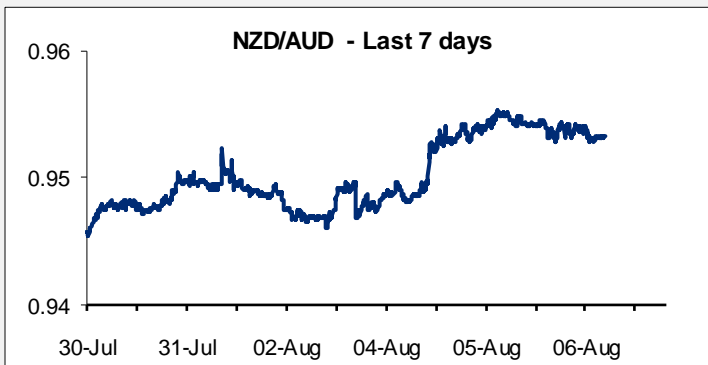
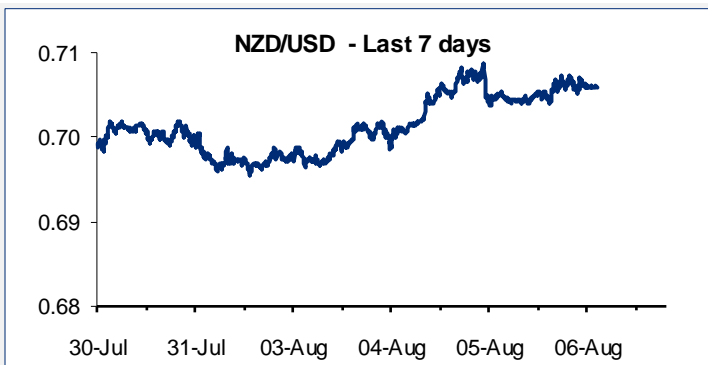
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:54

Source: Bloomberg

NZD exchange rates

6/08/2021	6:54 a.m.	Prev. NY close
USD	0.7060	0.7048
GBP	0.5068	0.5075
AUD	0.9534	0.9551
EUR	0.5965	0.5954
JPY	77.50	77.16
CAD	0.8820	0.8838
CHF	0.6399	0.6391
DKK	4.4359	4.4279
FJD	1.4684	1.4632
HKD	5.4908	5.4801
INR	52.37	52.29
NOK	6.2170	6.2341
PKR	115.26	115.23
PHP	35.48	35.07
PGK	2.4772	2.4730
SEK	6.0809	6.0691
SGD	0.9538	0.9522
CNY	4.5618	4.5574
THB	23.47	23.35
TOP	1.5759	1.5746
VUV	78.06	77.87
WST	1.8056	1.8108
XPF	70.99	70.85
ZAR	10.1612	10.1389



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.88	-0.56
3 Months	-6.05	-5.55
6 Months	-18.14	-17.14
9 Months	-34.73	-32.74
1 Year	-54.10	-52.10

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.67	-1.98
3 Months	-12.23	-11.16
6 Months	-32.96	-30.86
9 Months	-57.16	-53.18
1 Year	-84.23	-79.61

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