

6 September 2021



Events Round-Up

CH: Caixin PMI services, Aug: 46.7 vs. 52 exp.

EC: Retail sales (m/m%), Jul: -2.3 vs. 0 exp.

US: Chg. in nonfarm payrolls (k), Aug: 235 vs. 733 exp.

US: Unemployment rate (%), Aug: 5.2 vs. 5.2 exp.

US: Average hourly earnings (m/m%), Aug: 0.6 vs. 0.3 exp.

US: Average hourly earnings (y/y%), Aug: 4.3 vs. 3.9 exp.

US: ISM services index, Aug: 61.7 vs. 61.6 exp.

Good Morning

Friday's nonfarm payrolls report was a mixed bag, with much weaker than expected job growth but stronger wage pressure. Markets expect the Fed to focus on the disappointing employment number and to wait until later in the year to taper its bond buying. The US 10-year rate increased after the report in a curve steepening move while equity markets were little changed. The USD continued to push lower, with the NZD and AUD outperforming again. The NZD ended the week above 0.7150 for the first time in almost three months. Also helping the NZD, at the margin, has been the creep higher in OCR expectations, with markets pricing a greater than 90% chance of a 25bp OCR hike at the October meeting.

Leading indicators had suggested the risks pointed to a low payrolls number, as so it was. Employment growth was just 235k in August, a sharp downshift from July's upwardly revised 1,053k gain and well below even the lowest analyst forecast of 400k. The spread of the Delta variant in the US is the obvious culprit, with sectors such as leisure and hospitality, where the risks of infection are greater, seeing big slowdowns in hiring. The unemployment rate, which comes from a separate survey of households, fell to 5.2%, as expected.

On wages, average hourly earnings were much higher than expected, rising 0.6% on the month (0.3% m/m expected). Some of the surprise can be explained by compositional effects – i.e. a slowdown in job growth in lower-wage sectors, such as leisure and hospitality, will put upward pressure on average hourly earnings, all else equal. Even so, average hourly earnings have proved much stronger than expected over recent months (even adjusting for these compositional effects), suggesting the labour market is tighter than the headline unemployment rate suggests.

Likewise, job openings are at a record high in the US, suggesting labour *supply* issues are mainly to blame for the disappointing job growth. Factors thought to be inhibiting labour supply at present include fears of catching Covid-19, lack of available childcare, and generous unemployment benefits, albeit these enhanced \$300 per week payments expired over the weekend which might encourage more into the job market over coming months. Symptomatic of a tight labour market, a widely run media story last week highlighted a McDonald's restaurant in Oregon had called on 14 and 15 year olds to apply, having had limited success attracting staff even after it raised its minimum wage to \$15/hour.

For Fed Chair Powell, who has emphasised the shortfall in the number of people employed relative to pre-Covid levels, the low payrolls number will be a disappointment and plays to the view that the Fed will wait until later in the year, either November or December, to make a tapering announcement. Certainly, a September tapering announcement now looks to be off the table.

Looking through the immediate post-data volatility, the market reaction saw a lower USD and a steeper yield curve, both consistent with the Fed sticking with its dovish stance. The S&P500 ended unchanged on the session with tech stocks outperforming (NASDAQ +0.2%) but cyclical sectors, such as financials and materials, ending lower.

There was little change in Fed rate hike expectations, with only a marginal downshift in pricing for 2022 and 2023, by around 1bp. The first Fed hike is still priced for March 2023. The yield curve steepened, with little movement at the short-end of the curve but a 4bp increase in the US 10-year rate, to 1.32%. The yield curve steepening might also reflect prepositioning ahead of the \$120b of bond supply this week.

The USD weakened further, with the BBDXY index down 0.2% and closing in on a two-month low. The BBDXY was down 0.7% last week as Powell's dovish Jackson Hole address sunk in and risk appetite strengthened.

The NZD and AUD were again the star performers on Friday, as they were for the week itself. The AUD was up 0.8% on Friday, taking its gain on the week to over 2%, ending at around 0.7460. The NZD, which also experienced a ~2% appreciation last week, was up 0.7% to around 0.7160, helping to reduce the gap to our short-

term fair value model estimate. The NZD looks to have firmly broken out of its previous 0.69–0.71 trading range.

Currency movements elsewhere were more modest, the EUR breaking above 1.19 briefly, before closing little changed on the day. The JPY (+0.2%) didn't show much sustained reaction to news that PM Suga will resign ahead of the general election later this year. Japanese equities took developments more positively, reportedly on the basis that the change in leadership will lead to greater fiscal stimulus, with the Topix increasing 1.6% to its highest level since 1991.

In other economic data on Friday, the ISM Services index fell back to 61.7 in August, as expected, with the index still consistent with very strong levels of activity in the services sector. China's Caixin PMI plunged to 46.7 in August, its lowest level since April last year, but the market looked through the data given the Delta outbreak in the country has since been brought under control.

Turning to domestic developments, Covid-19 cases continue to trend lower with 28 announced on Friday and 20 on each of Saturday and Sunday, an encouraging fall from the 80+ levels seen midweek. The trend lower in new cases has given the market greater confidence that the country will move down the Covid alert levels in time.

Against this backdrop, OCR rate hike expectations continue to creep up, with October now priced at 0.485%, implying a great than 90% chance of a 25bp rate hike at the upcoming meeting. 70bps of hikes are priced into the next three meetings. Of course, it's quite possible, if the country makes it back to Covid alert level 1 by the time of the October meeting, that the market again toys with pricing a chance of a 50bp OCR increase to start off the tightening cycle. The 5-year swap rate reached its highest level since May 2019 on Friday, up 4bps to 1.74%, and we should expect further upward pressure on long-term rates

to start the week given the Friday night moves in US Treasuries.

The government reviews the Covid alert levels again today, with a possibility that parts of the country, ex-Auckland, will be permitted to move down further, to level 2 (or maybe "2.5"), as soon as Wednesday. Domestic economic data this week is second tier and unlikely to be market moving, including electronic card transactions (which might help gauge the lockdown impact in August) and Q2 GDP partial indicators.

It should be a quiet session ahead with the US market closed for the Labor Day holiday. The key events this week are the RBA and ECB monetary policy meetings. Our NAB colleagues expect the RBA to stick to its tapering plan, reducing weekly purchases from \$5b per week to \$4b, although they acknowledge the optics for the RBA are challenging amidst the lockdowns in Victoria and NSW, so it's likely to be a close call. The focus at the ECB meeting will be on what the central bank signals for its pandemic bond buying programme. The consensus is that it will slightly reduce its monthly QE purchase pace next quarter, from €80b per month to a still hefty €60-70b pace. The market will also be listening out to several Fed speakers this week, including NY President Williams, for their interpretation of the payrolls report and what it might mean for the tapering timeline.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Building work put in place (q/q%)	Q2		3.7	10:45
GE	Factory Orders (m/m%)	Jul	-1	4.1	18:00
UK	UK Construction PMI	Aug		58.7	20:30

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	0.7158	+0.7	0.7118	0.7170	CHF	0.9134	-0.1	S&P 500	4,535	-0.0	31.3	Oil (Brent)	72.61	-0.8
AUD	0.7460	+0.8	0.7419	0.7478	SEK	8.544	-0.3	Dow	35,369	-0.2	25.0	Oil (WTI)	69.29	-1.0
EUR	1.1880	+0.0	1.1866	1.1909	NOK	8.668	+0.3	Nasdaq	15,364	+0.2	34.1	Gold	1831.5	+1.2
GBP	1.3871	+0.3	1.3818	1.3892	HKD	7.772	+0.0	Stoxx 50	4,202	-0.7	28.9	HRC steel	1941.0	-0.1
JPY	109.71	-0.2	109.59	110.05	CNY	6.456	-0.0	FTSE	7,138	-0.4	23.1	CRB	220.1	+0.0
CAD	1.2524	-0.2			SGD	1.341	-0.1	DAX	15,781	-0.4	22.9	Wheat Chic.	726.3	+1.3
NZD/AUD	0.9595	-0.2			IDR	14,263	-0.1	CAC 40	6,690	-0.7	34.7	Sugar	19.62	-1.4
NZD/EUR	0.6025	+0.6			THB	32.48	+0.1	Nikkei	29,128	+2.0	25.5	Cotton	95.62	+0.5
NZD/GBP	0.5160	+0.4			KRW	1,157	-0.4	Shanghai	3,582	-0.4	6.7	Coffee	193.0	-0.7
NZD/JPY	78.53	+0.4			TWD	27.67	-0.1	ASX 200	7,523	+0.5	27.0	WM powder	3655.0	+2.2
NZD/CAD	0.8965	+0.4			PHP	49.82	-0.1	NZX 50	13,289	+0.1	12.4	Australian Futures		
NZ TWI	75.57	+0.4										3 year bond	99.705	0.00
												10 year bond	98.77	-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				
USD	0.25	0.12	0.30	1.34	USD	1.32	0.04	NZGB 5 1/2 04/15/23	0.97	0.03	1 year	1.00	0.01
AUD	0.10	0.01	0.23	1.39	AUD	1.22	0.02	NZGB 0 1/2 05/15/26	1.48	0.04	2 year	1.36	0.03
NZD	0.25	0.48	1.36	2.04	NZD	1.84	0.02	NZGB 0 1/4 05/15/28	1.66	0.03	5 year	1.74	0.04
EUR	0.00	0.06	-0.48	0.00	GER	-0.36	0.02	NZGB 1 1/2 05/15/31	1.84	0.02	7 year	1.87	0.03
GBP	0.10	0.06	0.47	0.89	GBP	0.72	0.04	NZGB 2 05/15/32	1.94	0.01	10 year	2.04	0.02
JPY	-0.04	-0.10	-0.02	0.07	JPY	0.04	0.01	NZGB 2 3/4 04/15/37	2.34	0.01	15 year	2.29	0.01
CAD	0.25	0.45	0.78	1.67	CAD	1.19	0.03	NZGB 1 3/4 05/15/41	2.62	0.01			

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

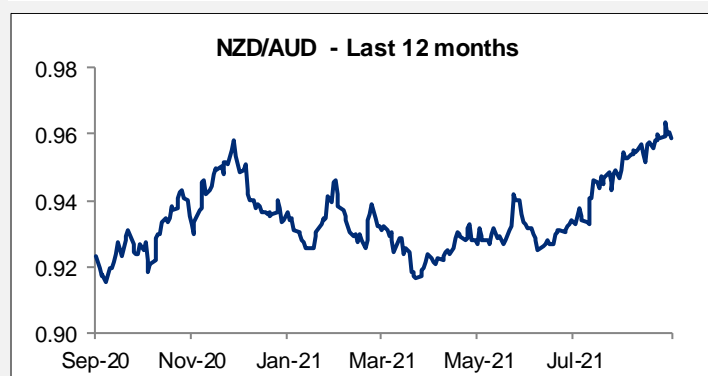
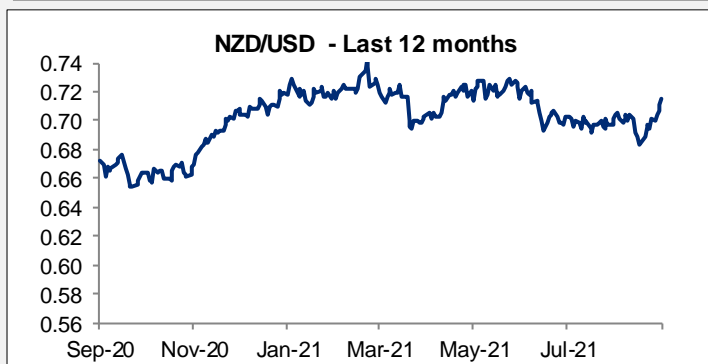
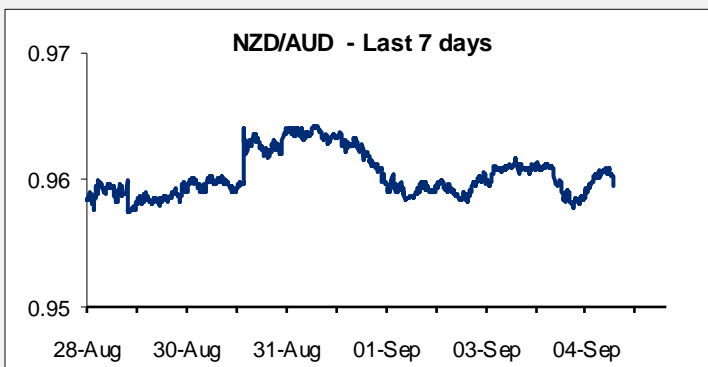
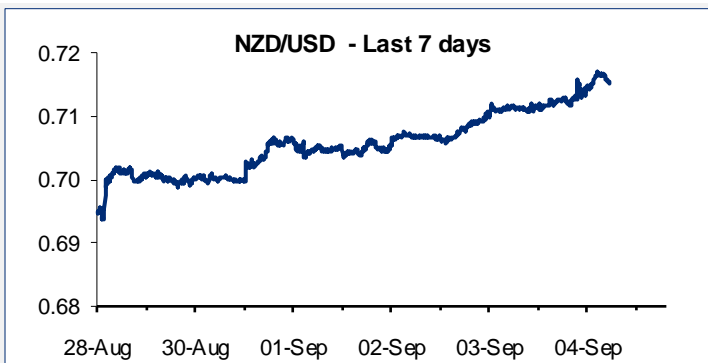
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New York close

Source: Bloomberg

NZD exchange rates

4/09/2021	NY close	Prev. NY close
USD	0.7158	0.7111
GBP	0.5160	0.5141
AUD	0.9595	0.9609
EUR	0.6025	0.5988
JPY	78.53	78.18
CAD	0.8965	0.8926
CHF	0.6538	0.6502
DKK	4.4798	4.4527
FJD	1.4894	1.4796
HKD	5.5631	5.5258
INR	52.27	51.96
NOK	6.2044	6.1460
PKR	119.44	116.92
PHP	35.67	35.48
PGK	2.5116	2.4933
SEK	6.1154	6.0944
SGD	0.9600	0.9546
CNY	4.6206	4.5912
THB	23.35	23.08
TOP	1.6021	1.5799
VUV	78.85	78.54
WST	1.8191	1.8094
XPF	72.34	71.94
ZAR	10.2450	10.2861



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.19	0.19
3 Months	-4.65	-3.77
6 Months	-14.89	-13.86
9 Months	-32.31	-30.79
1 Year	-53.84	-51.79

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.17	-1.28
3 Months	-10.80	-8.99
6 Months	-29.77	-27.35
9 Months	-55.26	-51.66
1 Year	-85.25	-80.26

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