

7 September 2021



Events Round-Up

NZ: Building work put in place (q/q%), Q2: 2.0 vs. 2.9 exp.

GE: Factory orders (m/m%), Jul: 3.4 vs. -0.7 exp.

Good Morning

With the US on holiday, overnight trading and news has been uneventful. Global equity markets continue their record-breaking run, while the USD has found some support after weakening last week. Both the NZD and AUD are slightly softer to start the new week, after a blistering recovery over the past fortnight.

The US Labour Day holiday has made for some quiet trading conditions, but that hasn't stopped global equity markets in their tracks, with the MSCI world index continuing to print fresh record highs on a seemingly daily basis. Key Asian equity markets were stronger, with the Nikkei up 1.8%, fuelled by expectations that a newly elected Prime Minister after Suga's resignation last week will add further economic stimulus. China's CSI300 index rose by a 1.9% and European bourses were all stronger, with the Euro Stoxx 600 index up 0.7% and the UK's FTSE100 up 0.7%. US S&P500 futures are up 0.2%.

If rising stock markets seem incongruous with a hiccup in the global equity recovery, owing to the spread of the delta variant of COVID19, the explanation is that the soft patch in growth delays the chance of central banks removing the punchbowl. This is clearly evident in the US, with Powell's recent Jackson Hole speech and the much softer than expected payrolls figure on Friday pushing out expectations tapering of QE and the kick-off date for a higher Fed Funds rate. In China the PBoC has recently given the impression that it stands ready to ease credit conditions to support the economy.

In central bank meetings this week, the Bank of Canada is expected to delay further tapering of QE, after a run of softer data over the past month. In the RBA's policy update later this afternoon our NAB colleagues expect the RBA to stick to its tapering plan, reducing weekly purchases from \$5b per week to \$4b but that view is in the minority, with 10 of 16 economists surveyed by Bloomberg expecting the RBA to defer tapering. Later this week, the ECB is expected to reduce the run-rate of its pandemic bond buying operations, but it won't call that a taper and neither should it, given that it simply reverses the increase in bond

buying over the past quarter, and large scale QE is still part of the agenda for some time yet.

In economic data, Germany factory orders unexpectedly surged 3.4% in July, albeit driven by higher demand for ships. Over recent months, the link between total factory orders and industrial production has been broken by supply constraints, meaning that production can't keep up with demand.

Positive risk sentiment evident in global equity markets has bypassed the currency market, with the NZD and AUD dragging the chain against the backdrop of a small broadly based recovery in the USD. The NZD and AUD have begun the week depreciating in the order of 0.3%, with the move largely coming during local trading hours and with little price action overnight. The modest fall should be seen in the context of blistering recoveries that saw both currencies up over 5% in the prior fortnight. The NZD currently trades at 0.7135, the AUD at 0.7435, and the NZD/AUD continues to struggle to make a sustainable break above 0.96, settling just under the mark. Other key majors are down in the order of 0.1-0.2% against the USD, so the NZD is slightly weaker on those crosses.

With NZ's latest COVID19 outbreak looking increasingly under control – with new daily cases at 20 over the past few days and most of them linked to household contacts of existing cases – PM Ardern announced a further easing of restrictions at the weekly review. From Wednesday NZ, excluding the Auckland region, will move to an enhanced version of Level 2 COVID19 restrictions, allowing more businesses to reopen, including schools, restaurants, hairdressers, and gyms, subject to social distancing rules, mask wearing and limits on numbers, supporting a rebound in economic activity. Auckland will remain at Level 4 for at least another week but the government showed some intent to progressively move down the levels without unnecessary delay as long as there is confidence in containing the spread of the virus.

The easing of restrictions, as expected, added some conviction that the RBNZ's tightening cycle would likely proceed from next month. The OIS market closed with the early-October meeting priced at 0.50%, consistent with a full 25bps rate hike. Ahead of the August meeting, pre the recent COVID19 outbreak, the market had priced as much as a one in four chance of a 50bps hike, and the market could well toy with a larger-than-25bps move as the meeting approaches. There is high conviction priced for

the next few meetings, with pricing for February just under 1%, suggesting a series of 25bps hikes almost fully priced for the three meetings including that date.

NZ swap rates continued their upward run, with 2, 5 and 10-year rates pushing up to their highest rates since mid-2019, the 2-year rate up 2bps to 1.37% and the 10-year rate up 4bps to 2.08%. Trading in the bond market was almost non-existent, but yields were marked higher on the back of the Friday night move in US Treasuries, with yields up 5bps across most of the curve. The market remains heavy ahead of next week's launch of a new 30-year bond.

In the day ahead, we noted earlier the RBA's policy update. With split expectations, there could be some market reaction, but none that deserves to be sustained. The RBA will note the current negative impact on the economy of the lockdown restrictions but will still likely be looking for a strong rebound as restrictions are loosened. China trade data and German industrial production round out the calendar.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	RBA cash rate target (%)	Sep	0.1	0.1	16:30
AU	RBA 3yr yield target	Sep	0.1	0.1	16:30
CH	Exports (USD, y/y%)	Aug	17.1	19.3	
CH	Imports (USD, y/y%)	Aug	26.1	28.1	
GE	Industrial production (m/m%)	Jul	0.9	-1.3	18:00
GE	ZEW survey expectations	Sep	30.5	40.4	21:00

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	0.7134	-0.3	0.7128	0.7148	CHF	0.9150	+0.2	S&P 500	4,535	-0.0	32.3	Oil (Brent)	72.22	-0.5
AUD	0.7434	-0.3	0.7427	0.7443	SEK	8.564	+0.3	Dow	35,369	-0.2	25.7	Oil (WTI)	68.89	-0.6
EUR	1.1869	-0.1	1.1856	1.1873	NOK	8.662	-0.1	Nasdaq	15,364	+0.2	35.8	Gold	1823.3	-0.4
GBP	1.3835	-0.3	1.3819	1.3849	HKD	7.774	+0.0	Stoxx 50	4,246	+1.1	30.2	HRC steel	1941.0	-0.1
JPY	109.84	+0.1	109.82	109.95	CNY	6.458	+0.0	FTSE	7,187	+0.7	23.9	CRB	220.1	+0.0
CAD	1.2535	+0.1			SGD	1.342	+0.1	DAX	15,932	+1.0	24.1	Wheat Chic.	726.3	+1.3
NZD/AUD	0.9596	+0.1			IDR	14,223	-0.3	CAC 40	6,744	+0.4	35.8	Sugar	19.62	-1.4
NZD/EUR	0.6011	-0.2			THB	32.49	+0.0	Nikkei	29,660	+1.8	28.5	Cotton	95.62	+0.5
NZD/GBP	0.5156	-0.1			KRW	1,156	-0.0	Shanghai	3,622	+1.1	10.0	Coffee	193.0	-0.7
NZD/JPY	78.36	-0.2			TWD	27.59	-0.3	ASX 200	7,528	+0.1	26.6	WM powder	3655.0	+0.0
NZD/CAD	0.8942	-0.2			PHP	49.94	+0.2	NZX 50	13,300	+0.1	12.1	Australian Futures		
NZ TWI	75.42	-0.2										3 year bond	99.7	0.00
												10 year bond	98.76	-0.02

Interest Rates								NZ Government Bonds			NZ Swap Yields			
Rates	Swap Yields				Benchmark 10 Yr Bonds		Last	Net Day	Last		Last		Last	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	0.25	0.12	0.30	1.34	USD	1.32	0.00	NZGB 5 1/2 04/15/23	1.00	0.03	1 year	1.02	0.02	
AUD	0.10	0.01	0.24	1.40	AUD	1.26	0.04	NZGB 0 1/2 05/15/26	1.53	0.05	2 year	1.37	0.02	
NZD	0.25	0.50	1.37	2.08	NZD	1.89	0.05	NZGB 0 1/4 05/15/28	1.71	0.05	5 year	1.78	0.04	
EUR	0.00	0.06	-0.48	0.01	GER	-0.37	-0.01	NZGB 1 1/2 05/15/31	1.89	0.05	7 year	1.91	0.04	
GBP	0.10	0.06	0.46	0.87	GBP	0.69	-0.02	NZGB 2 05/15/32	2.00	0.05	10 year	2.08	0.04	
JPY	-0.03	-0.10	-0.01	0.09	JPY	0.05	0.01	NZGB 2 3/4 04/15/37	2.39	0.05	15 year	2.34	0.04	
CAD	0.25	0.45	0.79	1.67	CAD	1.19	0.03	NZGB 1 3/4 05/15/41	2.67	0.05				

* 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 06:57

Source: Bloomberg

NZD exchange rates

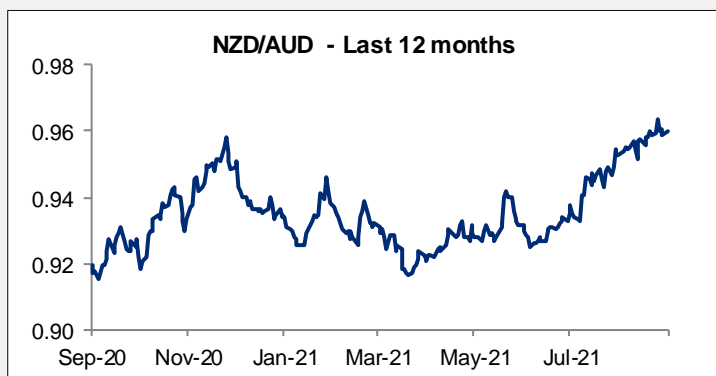
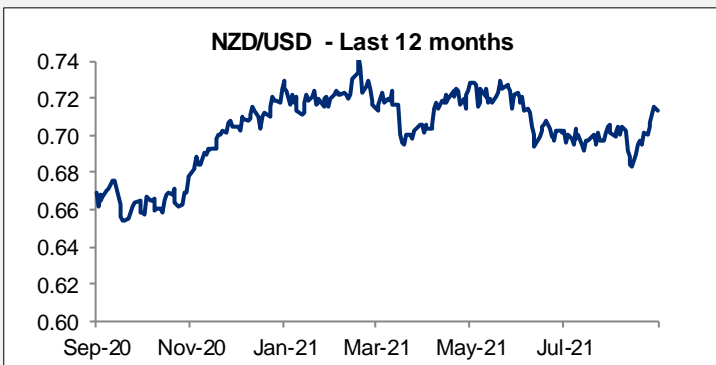
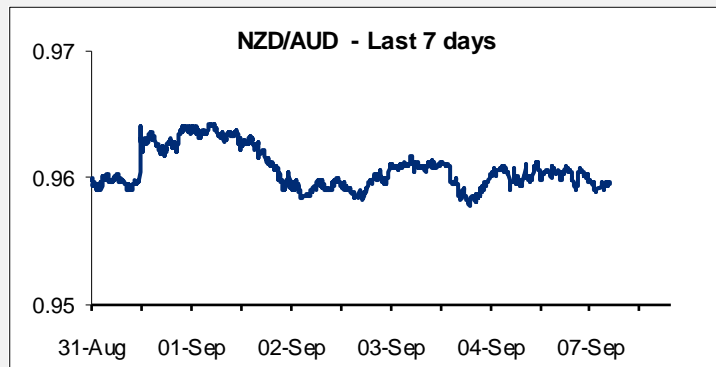
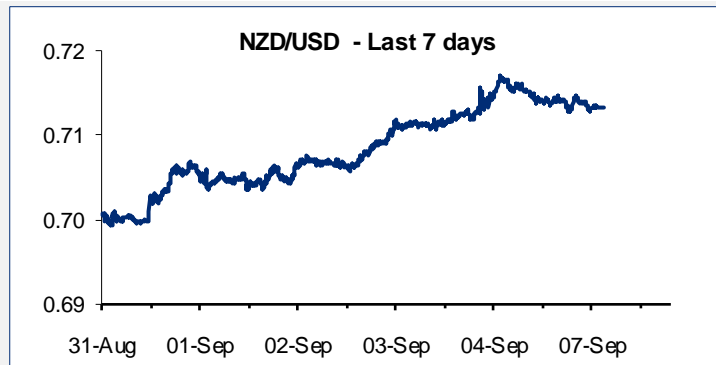
7/09/2021	6:59 am	Prev. NY close
USD	0.7134	0.7158
GBP	0.5156	0.5160
AUD	0.9596	0.9595
EUR	0.6011	0.6025
JPY	78.36	78.53
CAD	0.8942	0.8965
CHF	0.6528	0.6538
DKK	4.4693	4.4798
FJD	1.4764	1.4894
HKD	5.5456	5.5631
INR	52.15	52.27
NOK	6.1795	6.2044
PKR	119.04	117.69
PHP	35.63	35.67
PGK	2.5032	2.5116
SEK	6.1097	6.1154
SGD	0.9575	0.9600
CNY	4.6073	4.6206
THB	23.18	23.35
TOP	1.5850	1.6021
VUV	78.26	78.85
WST	1.8162	1.8191
XPF	71.96	72.34
ZAR	10.1607	10.2450

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.19	0.25
3 Months	-4.85	-4.00
6 Months	-15.46	-14.46
9 Months	-33.50	-31.76
1 Year	-55.23	-53.23

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.06	-1.17
3 Months	-10.96	-9.31
6 Months	-30.54	-28.23
9 Months	-57.15	-52.92
1 Year	-87.49	-82.73



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