

8 September 2021



Events Round-Up

AU: RBA cash rate target (%), Sep: 0.1 vs. 0.1
 AU: RBA 3yr yield target, Sep: 0.1 vs. 0.1
 CH: Exports (USD, y/y%), Aug: 25.6 vs. 17.3 exp.
 CH: Imports (USD, y/y%), Aug: 33.1 vs. 26.9 exp.
 GE: Industrial production (m/m%), Jul: 1.0 vs. 0.8 exp.
 GE: ZEW survey expectations, Sep: 26.5 vs. 30.3 exp.
 NZ: GDT dairy auction price index: +4.0%

Good Morning

There hasn't been much news but risk appetite is weaker overnight, with US and European equity markets on the soft side and the USD recovering further. AUD and CAD are the weakest currencies, while the NZD has gravitated to 0.71. Global bond markets are weaker, with 10-year rates up in the order of 4-5bps across the US and Europe.

Following the US long weekend, risk appetite is evidently softer with no notable drivers for the change in mood. The S&P500 is currently down 0.2% but within the mix, Big Tech has outperformed, and the Nasdaq index is modestly higher. Key UK and European equity markets fell around 0.5%.

The US 10-year rate is up 4bps to 1.37%, after stretching as high as 1.38% overnight, some upward pressure noted ahead of a big week of increased supply, with \$120b of Treasury auctions. The first leg of the trifecta went well following the market sell-off, with the auction of \$58b of 3-year notes drawing strong demand at a yield just below the prevailing market rate. 10-year and 30-year auctions are scheduled for the next two days. European 10-year rates rose by 4-6bps, with increased supply also mooted as a possible driver, and as the market looks to the ECB near the end of the week and a possible reduction in QE for the quarter ahead.

On the economic front, China trade data were much stronger than expected, with both exports and imports surging to record levels, despite the recent disruption at its second largest port. Strong exports likely reflects strong global demand but also some possible diversion in trade from other Asian countries, which are suffering more from the pandemic, and some earlier than usual orders as buyers attempt to front-run potential supply bottlenecks ahead of the holiday season.

Investor confidence in Germany's economy measured by the ZEW survey slipped for the fourth successive month, amidst COVID19 and supply concerns. German industrial production recovered by 1% in July, after three monthly drops, with noted supply concerns overhanging the outlook.

The recovery of the USD on Monday extended for another day, with the BBDXY USD index up 0.4% and the currency showing broadly based gains. Some risk-off vibe and a reversal of last week's notable loss are evident. CAD has been the weakest performer, down 0.8% overnight and for the day, ahead of the Bank of Canada's policy update tonight. Oil prices are down about 1% and that won't be helping the currency.

AUD is down 0.6% overnight, back below 0.74, more reflecting the global backdrop than the RBA's policy update yesterday. The decision could be characterised as a "dovish taper", with the central bank sticking to its plan to taper QE from \$5b to \$4b per week, but rather than reviewing the run-rate in November, extending that pace of QE until at least mid-February 2022. Thus, aggregate bond buying will come somewhere in between those who thought the Bank might leave QE at \$5b and defer the taper to November, and those who believed in a current taper and another one in November. The market has already "moved on" from the decision. Australian 10-year bond futures have been more impacted by the global bond sell-off, with implied yields about 2bps higher since the NZ close.

The RBA is still expecting a strong rebound in 2022 as lockdown restrictions ease. The Bank also repeated the line that its central forecast doesn't see conditions met for an increase in the cash rate before 2024.

Global forces have dragged the NZD lower, going just below 0.71 and currently around that mark. Early in the week we suggested that the prior 0.71 resistance level might have morphed into a support level. The jury is probably still out on that one. NZD/AUD is slightly higher, but continues to hover near 0.96.

Indicators were pointing to a strong GDT dairy auction overnight and the price action didn't disappoint, with the price index up 4% and all products for sale contributing. Whole milk powder rose by 3.3%, skim milk powder rose by 7.3% and both butter and cheddar were up over 3½%.

The NZX future for the FY2022 milk price has been steadily rising over the past month, from \$7.65 to just over \$8 and the overnight auction supports an \$8 payout. The recovery in dairy prices provides more fuel for NZ's record-breaking run in its terms of trade, a supportive factor for NZ farm incomes and the NZD over the medium-term.

The NZGB market remained heavy yesterday, underperforming swaps as investors kept one eye on the launch of a new 30-year bond next week. The 10-year NZGB (2031s) rose 2bps to 1.91% against a 1bp fall in the 10-year swap rate. Short end bonds were also heavy, with modest rate increases against a flat 2-year swap rate of 1.38%.

Finally, I'm loathe to mention bitcoin as it is the only time I get hate-mail when mentioning the cryptocurrency in a negative light, but since it's all over the media, the "currency" tumbled as much as 17% to just under \$43k, after "Bitcoin Day" – the day El Salvador became the first nation (and perhaps the last) to adopt it as legal tender.

The app in El Salvador crashed for a few hours which didn't help confidence. BTC has since recovered a little, now down "only" 10% to just under \$47k.

Tonight, the Bank of Canada is widely expected to hold fire on any further tapering of QE, following the run of weak data over the past month, leaving the decision to the next full forecast review next month. NY Fed President Williams, one of the heavy hitters on the FOMC, will be speaking overnight and his views will be dissected for any hints on his view of the timing of removing policy stimulus.

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Coming Up

		Period	Cons.	Prev.	NZT
CA	Bank of Canada policy rate (%)	Sep	0.25	0.25	02:00
US	Fed's Williams discusses economic outlook				05:10

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	0.7097	-0.5	0.7087	0.7136	CHF	0.9193	+0.5	S&P 500	4,525	-0.2	32.0	Oil (Brent)	71.61	-0.8
AUD	0.7388	-0.7	0.7375	0.7437	SEK	8.590	+0.3	Dow	35,160	-0.6	25.0	Oil (WTI)	68.36	-1.3
EUR	1.1845	-0.2	1.1838	1.1882	NOK	8.676	+0.2	Nasdaq	15,397	+0.2	36.1	Gold	1797.1	-1.9
GBP	1.3786	-0.4	1.3768	1.3850	HKD	7.775	+0.0	Stoxx 50	4,225	-0.5	27.5	HRC steel	1920.0	-1.1
JPY	110.29	+0.4	109.87	110.29	CNY	6.467	+0.1	FTSE	7,149	-0.5	20.4	CRB	220.1	+0.0
CAD	1.2643	+0.9			SGD	1.346	+0.2	DAX	15,843	-0.6	20.9	Wheat Chic.	720.0	-0.9
NZD/AUD	0.9606	+0.2			IDR	14,213	-0.1	CAC 40	6,726	-0.1	33.1	Sugar	19.48	-0.7
NZD/EUR	0.5992	-0.3			THB	32.70	+0.6	Nikkei	29,916	+0.9	28.5	Cotton	95.41	+0.3
NZD/GBP	0.5148	-0.2			KRW	1,158	+0.1	Shanghai	3,677	+1.5	10.9	Coffee	194.0	+0.5
NZD/JPY	78.27	-0.1			TWD	27.60	+0.0	ASX 200	7,530	+0.0	25.3	WM powder	3655.0	+0.0
NZD/CAD	0.8973	+0.3			PHP	50.01	+0.1	NZX 50	13,322	+0.2	12.0	Australian Futures		
NZ TWI	75.25	-0.3										3 year bond	99.7	0.01
												10 year bond	98.73	-0.03

Interest Rates						
	Rates		Swap Yields		Benchmark 10 Yr Bonds	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day
USD	0.25	0.11	0.31	1.39	USD	1.37 0.05
AUD	0.10	0.01	0.23	1.44	AUD	1.26 0.00
NZD	0.25	0.52	1.37	2.08	NZD	1.91 0.01
EUR	0.00	0.06	-0.47	0.04	GER	-0.32 0.05
GBP	0.10	0.06	0.48	0.91	GBP	0.74 0.04
JPY	-0.03	-0.09	-0.01	0.09	JPY	0.04 -0.01
CAD	0.25	0.45	0.79	1.71	CAD	1.23 0.04

NZ Government Bonds			NZ Swap Yields		
	Last		Last		
NZGB 5 1/2 04/15/23	1.02	0.02	1 year	1.04	0.01
NZGB 0 1/2 05/15/26	1.56	0.04	2 year	1.38	0.00
NZGB 0 1/4 05/15/28	1.73	0.02	5 year	1.79	0.01
NZGB 1 1/2 05/15/31	1.91	0.02	7 year	1.91	-0.00
NZGB 2 05/15/32	2.01	0.01	10 year	2.07	-0.01
NZGB 2 3/4 04/15/37	2.40	0.01	15 year	2.31	-0.02
NZGB 1 3/4 05/15/41	2.68	0.00			

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

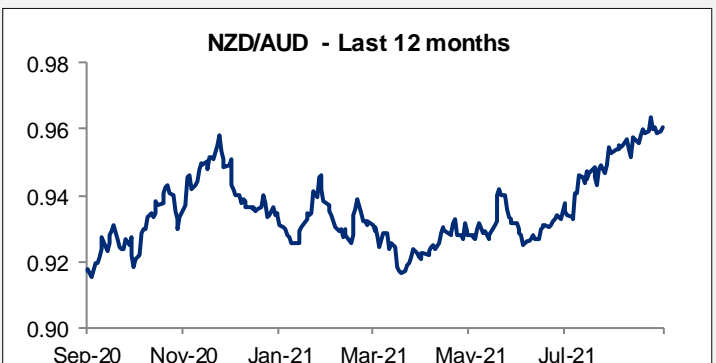
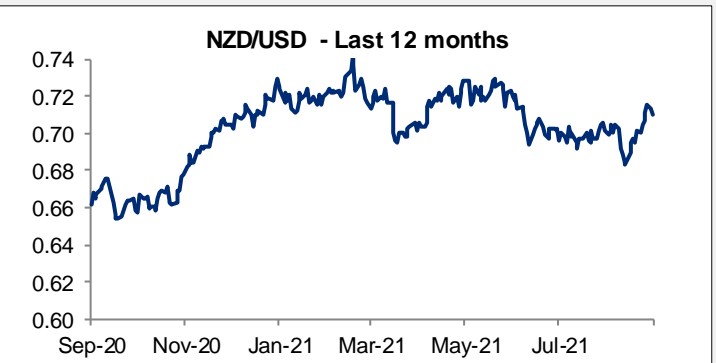
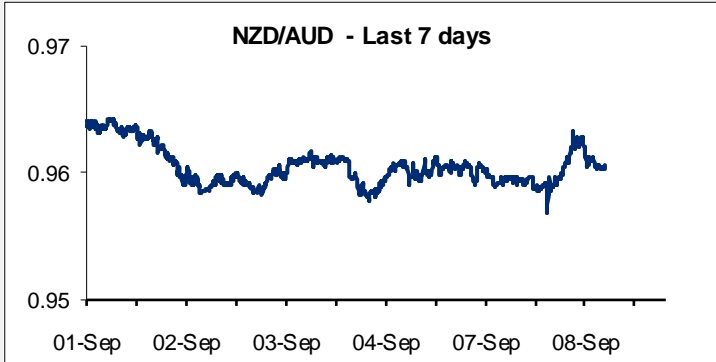
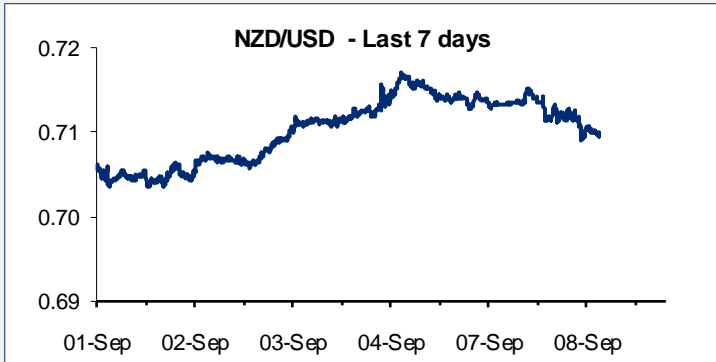
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:05

Source: Bloomberg

NZD exchange rates

8/09/2021	7:06 am	Prev. NY close
USD	0.7097	0.7136
GBP	0.5148	0.5157
AUD	0.9606	0.9593
EUR	0.5992	0.6012
JPY	78.27	78.40
CAD	0.8973	0.8944
CHF	0.6524	0.6530
DKK	4.4554	4.4703
FJD	1.4688	1.4848
HKD	5.5181	5.5472
INR	52.10	52.17
NOK	6.1576	6.1811
PKR	118.83	119.07
PHP	35.49	35.64
PGK	2.5016	2.5039
SEK	6.0960	6.1118
SGD	0.9551	0.9581
CNY	4.5894	4.6086
THB	23.16	23.18
TOP	1.5834	1.5854
VUV	77.93	78.28
WST	1.7917	1.8162
XPF	71.47	71.98
ZAR	10.1430	10.1600



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.29	0.15
3 Months	-4.74	-4.00
6 Months	-15.57	-14.57
9 Months	-33.46	-31.90
1 Year	-56.00	-54.00

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.24	-1.37
3 Months	-10.73	-9.28
6 Months	-30.64	-28.50
9 Months	-57.34	-53.90
1 Year	-89.36	-84.68

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