

13 September 2021



Events Round-Up

NZ: Electronic card spending, total (m/m%), Aug: -21.8 vs. 0.8 prev.

UK: Monthly GDP (m/m%), Aug: 0.1 vs. 0.5 exp.

UK: Industrial production (m/m%), Aug: 1.2 vs. 0.4 exp.

CA: Net chg. in employment (k), Aug: 90.2 vs. 68.2 exp.

CA: Unemployment rate (%), Aug: 7.1 vs. 7.2 exp.

US: PPI ex food and energy (y/y%), Aug: 6.7 vs. 6.6% exp.

Good Morning

Equities ended last week on a soft note, with the S&P500 falling almost 1% on Friday, while the USD strengthened against a backdrop of more cautious risk appetite. Global rates rebounded from their falls on Thursday night, helped by a lift in commodity prices. The NZD ended the week just above 0.71 while the NZD/AUD cross continues to grind higher, now up to 0.9670.

The US-China relationship was back in focus on Friday, for the first time in a while. On Friday afternoon, the White House confirmed Biden and Xi had spoken for 90 minutes, their first discussion since February, with market initially taking the news positively, possibly on the basis that a restart in high-level dialogue might eventually lead to a reduction in Chinese tariffs. The CNH appreciated to an almost three-month high while the Shanghai Composite neared its highest level in more than six years.

The positive vibes didn't last long, with reports later emerging that the US administration was considering an investigation into Chinese state subsidies, which could potentially lead to new sanctions or tariffs. The WSJ reported that the US has also looked at enforcement mechanisms to deal with the shortfall in Chinese purchases of US goods, which were agreed to as part of the Phase One trade deal with then-President Trump, as well as selective tariff reductions or exclusions on those imports which contribute to the Biden economic agenda, particularly around infrastructure. The CNH gave up most of its earlier gains to close only 0.1% higher on the day.

On a day of little news, the reports of a new US investigation into Chinese trade practices set the tone for US equity markets in New York trading. The S&P500 fell 0.8%, its fifth consecutive daily fall and taking its loss on the week to 1.7%. All sectors were in the red, with 'bond

proxies', such as Real Estate and Utilities, alongside tech stocks, underperforming. The Energy and Materials sectors outperformed, helped by a rebound in oil prices and further gains in industrial commodities. Earlier in the session, before the later reports on US-China trade, the Nikkei had risen 1.3% to near its highest level since 1990, fuelled by speculation of more fiscal stimulus.

Despite the falls in US and European equity markets last week, the signals on global growth coming out of some commodity markets have been more positive. Copper prices were 2.8% higher last week (over 3% higher on Friday alone), while nickel and aluminium made fresh 7-year and 11-year highs respectively. The Brent crude oil price was 2% higher on Friday, rebounding from the previous night's news that China had sold oil from its strategic reserves in a bid to dampen inflation pressures.

The increase in commodity prices helped US and European bond yields rebound on Friday from their post-ECB meeting falls. The US 10-year rate was 4bps higher on the session, to 1.34%, while the 10-year German rate increased 3bps, to -0.33%. The US 10-year rate is still within the broad 1.10% - 1.40% range that has been in place for the past two months, albeit towards the upper end. Likewise, US 10-year inflation expectations (so-called 'breakeven inflation') are near the top of the recent 2.20% - 2.45% range.

In economic data, US PPI inflation was slightly higher than expected, but the market's focus is much more on the CPI release, which comes out on Tuesday night. Economists are looking for a slight moderation in the year-on-year pace of US inflation, to 5.3% and 4.2% for headline and core inflation respectively (from 5.4% and 4.3%).

The NZD and AUD initially strengthened on the initial reports of the Biden-Xi phone call, with the NZD trading above 0.7150 in the London morning. But both gave back these gains later as equities and the CNH turned lower. The NZD ended the week just above the 0.71 mark, barely changed on the day but 0.6% lower on the week. The NZD/AUD cross continues to grind higher, hitting 0.9670 on Friday, its highest level since the illiquid conditions of April last year.

Currency movements were generally modest on Friday, with daily changes of less than 0.3% across the G10. A strong Canadian employment didn't provide much support to the CAD (-0.2%), even as the market slightly brought

forward the expected timing of Bank of Canada interest rate hikes. Canada saw a higher-than-expected 90k increase in employment in August and a 0.4% drop in the unemployment rate, to a post-Covid low of 7.1%. The Bank of Canada is expected to be one of the first developed market central banks to raise rates, with the market fully pricing the first hike in September next year.

In the domestic rates market, the curve flattened again, with the 10-year swap rate falling 3bps, on the back of global forces, while the 2-year swap rate was only 1bp lower. There was little change in swap rates across the curve last the week with the market consolidating around an expectation that the RBNZ will hike rates 25bps at each of the coming three meetings. Electronic card transactions plunged 21% in August as foreshadowed by higher frequency spending indicators.

There were 23 and 20 new community Covid-19 cases reported over the weekend ahead of today's government announcement on the Covid alert levels. There are 34 'unliked' cases outstanding at this stage, which is thought to be a barrier to Auckland coming down to Level 3.

Today sees the release of the preliminary ANZ Business Survey for September which will provide the first clean read of how businesses are reacting to the latest

lockdown. We're expecting slower activity indicators but still high price and inflation pressures. The market is likely to look through the Q2 GDP release on Thursday but, for the record, we're expecting it to show the economy had strong momentum heading into the latest lockdown, with quarterly growth of 1.1%.

In the US this week, besides the CPI release, the market will be watching both retail sales and the University of Michigan consumer confidence data amidst signs that the delta outbreak is leading to more caution amongst US consumers. Consumer confidence, on the University of Michigan's measure, slumped more than 13% last month. RBA Governor Lowe is speaking on "Delta, the Economy and Monetary Policy" tomorrow while the monthly batch of Chinese activity indicators come out on Wednesday.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Food Prices (m/m%)	Aug		1.3	10:45
NZ	ANZ Activity Outlook	Sep P		19.2	13:00

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	0.7113	+0.1	0.7108	0.7156	CHF	0.9176	+0.1	S&P 500	4,459	-0.8	33.5	Oil (Brent)	72.87	+2.0
AUD	0.7356	-0.2	0.7349	0.7410	SEK	8.633	+0.3	Dow	34,608	-0.8	25.7	Oil (WTI)	69.72	+2.3
EUR	1.1814	-0.1	1.1810	1.1851	NOK	8.672	-0.0	Nasdaq	15,115	-0.9	38.4	Gold	1789.9	-0.6
GBP	1.3839	+0.0	1.3827	1.3889	HKD	7.778	+0.0	Stoxx 50	4,170	-0.2	25.9	HRC steel	1927.0	+0.0
JPY	109.94	+0.2	109.80	109.99	CNY	6.444	-0.2	FTSE	7,029	+0.1	17.1	CRB	220.4	+0.9
CAD	1.2692	+0.2			SGD	1.342	-0.1	DAX	15,610	-0.1	18.2	Wheat Chic.	688.5	-0.5
NZD/AUD	0.9670	+0.2			IDR	14,203	-0.4	CAC 40	6,664	-0.6	32.6	Sugar	18.79	-2.3
NZD/EUR	0.6021	+0.2			THB	32.73	+0.1	Nikkei	30,382	+1.2	29.8	Cotton	95.23	+0.7
NZD/GBP	0.5140	+0.0			KRW	1,169	-0.0	Shanghai	3,703	+0.3	13.6	Coffee	188.1	+0.3
NZD/JPY	78.20	+0.2			TWD	27.61	-0.2	ASX 200	7,407	+0.5	26.4	WM powder	3750.0	+0.4
NZD/CAD	0.9028	+0.3			PHP	49.87	-0.1	NZX 50	13,064	-0.2	11.2	Australian Futures		
NZ TWI	75.53	+0.1										3 year bond	99.734	0.02
												10 year bond	98.75	-0.03
Interest Rates							NZ Government Bonds				NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last				
USD	0.25	0.11	0.32	1.37	USD	1.34	0.04	NZGB 5 1/2 04/15/23	1.03	-0.00	1 year	1.05	-0.01	
AUD	0.10	0.01	0.22	1.42	AUD	1.22	-0.05	NZGB 0 1/2 05/15/26	1.53	-0.03	2 year	1.37	-0.01	
NZD	0.25	0.53	1.37	2.04	NZD	1.87	-0.02	NZGB 0 1/4 05/15/28	1.70	-0.02	5 year	1.75	-0.02	
EUR	0.00	0.06	-0.46	0.03	GER	-0.33	0.03	NZGB 1 1/2 05/15/31	1.87	-0.03	7 year	1.87	-0.02	
GBP	0.10	0.06	0.52	0.94	GBP	0.76	0.02	NZGB 2 05/15/32	1.95	-0.03	10 year	2.04	-0.03	
JPY	0.00	-0.09	0.00	0.09	JPY	0.05	0.01	NZGB 2 3/4 04/15/37	2.33	-0.03	15 year	2.26	-0.02	
CAD	0.25	0.45	0.80	1.73	CAD	1.24	0.07	NZGB 1 3/4 05/15/41	2.60	-0.03				

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

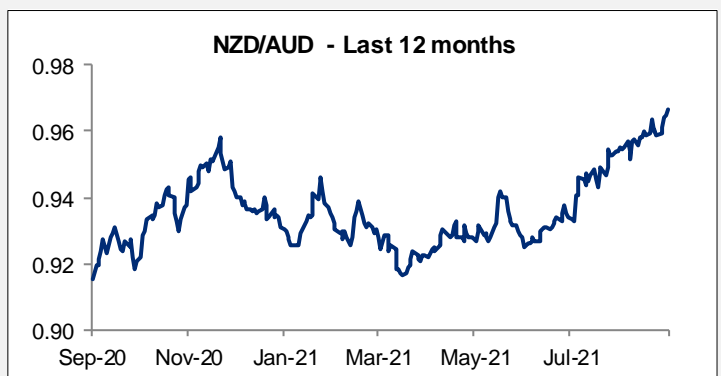
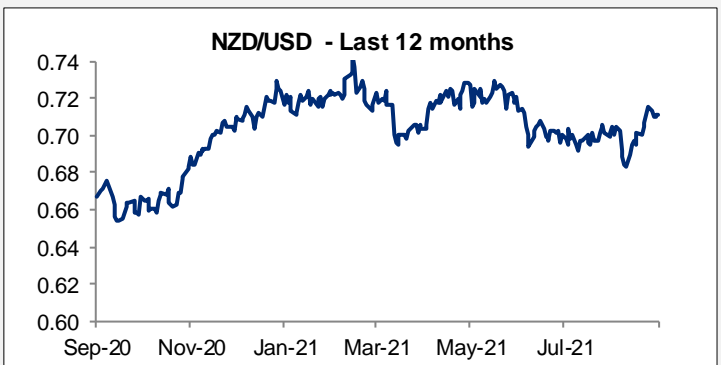
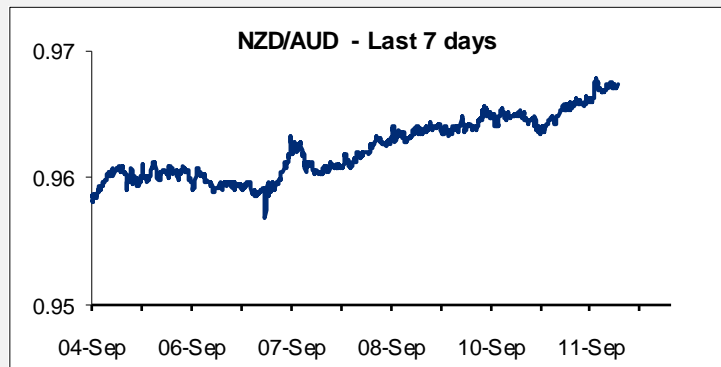
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New York close

Source: Bloomberg

NZD exchange rates

11/09/2021	NY close	Prev. NY close
USD	0.7113	0.7105
GBP	0.5140	0.5135
AUD	0.9670	0.9643
EUR	0.6021	0.6008
JPY	78.20	77.96
CAD	0.9028	0.8998
CHF	0.6527	0.6515
DKK	4.4786	4.4678
FJD	1.4742	1.4753
HKD	5.5322	5.5260
INR	52.28	52.30
NOK	6.1683	6.1625
PKR	119.56	118.85
PHP	35.47	35.48
PGK	2.4958	2.4895
SEK	6.1404	6.1168
SGD	0.9542	0.9541
CNY	4.5838	4.5866
THB	23.23	23.24
TOP	1.5796	1.5778
VUV	78.50	78.48
WST	1.8183	1.8136
XPF	71.92	71.79
ZAR	10.1066	10.0964



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.20	0.20
3 Months	-4.85	-4.32
6 Months	-15.88	-14.88
9 Months	-34.27	-32.52
1 Year	-56.61	-54.62

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-1.82	-1.02
3 Months	-10.52	-9.43
6 Months	-30.63	-28.34
9 Months	-58.05	-54.15
1 Year	-89.93	-84.94

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