

15 September 2021



## Events Round-Up

- AU: NAB business conditions, Aug: 14 vs. 10 prev.
- UK: Unemployment rate (%), Jul: 4.6 vs. 4.6 exp.
- UK: Employment change (3m/3m, k), Jul: 183 vs. 199 exp.
- US: NFIB small business optimism, Aug: 100.1 vs. 99 exp.
- US: CPI (m/m%), Aug: 0.3 vs. 0.4 exp.
- US: CPI ex food and energy (m/m%), Aug: 0.1 vs. 0.3 exp.
- US: CPI (y/y%), Aug: 5.3 vs. 5.3 exp.
- US: CPI ex food and energy (y/y%), Aug: 4 vs. 4.2 exp.

## Good Morning

US CPI inflation data overnight was slightly softer than expected, driving a 5bp fall in the US 10-year rate. The S&P500 is modestly lower again while the USD is little changed. The AUD is the weakest of the majors over the past 24 hours amidst more cautious risk appetite and dovish talk from RBA Governor Lowe. The NZD/AUD cross has pushed up towards the 0.97 mark. Yesterday, New Zealand Debt Management issued the first NZ 30-year government bond, with very strong offshore demand evident.

The focus overnight has been the monthly US CPI data release. Both headline and core inflation undershot expectations, with CPI ex food and energy rising just 0.1% in August, down from the 0.3% m/m pace in July and 0.9% in June. The year-on-year pace of core inflation moderated to 4%, from what was a 30-year high of 4.3%. Some of the recent drivers of inflation went into reverse, with used car price falling 1.5% last month (they are still 32% (!) higher over the last year) while airfares and hotel prices also fell on the month as the Delta outbreak in the US held back demand.

Some might consider this a point scored for the Fed in the debate over whether current inflation pressures are 'transitory' and will fall back next year as supply constraints ease. But that debate is far from being settled. Alternative core inflation metrics, such as the median and trimmed mean CPI measures, both of which exclude the most volatile inflation components, increased to 2.4% and 3.2% respectively. Trimmed mean CPI is at its highest level since 2008. And while the likes of used car prices are likely to continue normalising, some economists expect a significant pickup in shelter inflation (e.g. rents), which

carries a hefty ~40% weight in the core CPI index. Ultimately, the key in the medium term is whether price pressures feed through into higher wage and inflation expectations and, on that, the verdict is still out.

Nonetheless, the immediate market reaction to the release was a sharp fall in bond rates and a flattening of the yield curve, with the US 10-year rate falling from around 1.34% to 1.28%. The US 10-year rate remains firmly contained within the 1.10% - 1.40% range that has been in place for the last two months. US inflation expectations came down as well, with the 10-year 'breakeven inflation' rate off 4bps, to 2.33%. Market pricing of inflation is consistent with the 'transitory' inflation hypothesis.

Equity markets are modestly lower again, the S&P500 down by around 0.6% and the NASDAQ off 0.5%. Bank stocks have underperformed amidst the flattening of the yield curve, which is perceived as negative for net interest margins, while other cyclical sectors, such as Materials and Industrials, are down more than 1%. The ~2% decline in the S&P500 this month follows what has been a strong rally earlier in the year. Japanese equity markets continue to perform strongly on the back of fiscal stimulus expectations, with the Nikkei hitting its highest level since 1990 yesterday.

Oil prices are little changed overnight (Brent crude -0.1%) despite China confirming it will conduct its first sales from its strategic oil reserves on September 24.

Currency moves over the past 24 hours have a risk-off flavour, with the JPY and Swiss Franc both up by around 0.3% while commodity currencies have fallen (CAD -0.3%, NZD -0.5%, AUD -0.7%). The USD initially fell after the CPI release, but it has since recovered as risk appetite turned more cautious.

Also weighing on the AUD over the past 24 hours has been more dovish rhetoric from RBA Governor Lowe. Lowe pushed back against market pricing of rate hikes in 2022 and early 2023 in his speech yesterday, saying this was difficult to reconcile with his central view that inflation and wages will rise only slowly from here. The market continues to price around 50bps of RBA rate hikes by the end of 2023. Lowe's dovish talk has helped the NZD/AUD cross move up towards the 0.97 mark, now at around 0.9680.

Turning to local developments, 15 new Covid-19 cases were reported yesterday, a welcome fall from the levels of the previous two days. Encouragingly, there are just 10 mystery ('unlinked') cases outstanding now, providing hope that Auckland can move down to Alert Level 3 next week, as agreed in principle by cabinet earlier this week.

The main event for the domestic rates market yesterday was New Zealand Debt Management's \$3b syndication of a May-2051 bond, the first 30-year government bond issued in New Zealand. The deal priced at a spread of 25bps to the May-2041 bond, the tight-end of price guidance, with a huge \$12b order book reflecting very strong international demand (no huge surprise given the much higher yields in New Zealand than other developed markets). The bond market reversed some of its recent, pre-syndication, underperformance after the deal priced, with the 2041 bond falling 8bps on the day and the 10-year yield falling 5bps, to 1.93%. Swap rates were in fact slightly higher yesterday, by 1-2bps, helped by the fall in new Covid-19 cases numbers.

Monthly Chinese activity indicators are the main highlight in the session ahead, with economists expecting some further moderation in the year-on-year rates of growth in retail sales, industrial production and fixed asset investment.

[nick.smyth@bnz.co.nz](mailto:nick.smyth@bnz.co.nz)

## Coming Up

	Period	Cons.	Prev.	NZT
NZ Current Account (%/GDP)	2Q	-3.3	-2.2	10:45
CH Retail Sales (y/y%)	Aug	7	8.5	14:00
CH Industrial Production (y/y%)	Aug	5.8	6.4	14:00
CH Fixed Assets Ex Rural YTD (y/y%)	Aug	9	10.3	14:00
UK CPI (y/y%)	Aug	2.9	2	18:00
UK CPI Core (y/y%)	Aug	2.9	1.8	18:00
EC Industrial Production (m/m%)	Jul	0.6	-0.3	21:00
CA CPI (y/y%)	Aug	3.9	3.7	00:30
CA CPI Core- Common (y/y%)	Aug	1.7	1.7	00:30
EC ECB's Lane Speaks at Webinar				03:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**					
Indicative overnight ranges (*)					Other FX		Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7089	-0.4	0.7084	0.7151	CHF	0.9192	-0.3		S&P 500	4,442	-0.6	31.3	Oil (Brent)	73.63	+0.1
AUD	0.7320	-0.7	0.7316	0.7369	SEK	8.604	+0.0		Dow	34,563	-0.9	23.5	Oil (WTI)	70.44	-0.0
EUR	1.1809	-0.0	1.1800	1.1846	NOK	8.647	+0.1		Nasdaq	15,036	-0.4	36.0	Gold	1803.7	+0.6
GBP	1.3817	-0.2	1.3816	1.3913	HKD	7.779	-0.0		Stoxx 50	4,192	+0.1	26.4	HRC steel	1930.0	+0.3
JPY	109.62	-0.3	109.53	110.16	CNY	6.439	-0.2		FTSE	7,034	-0.5	16.7	CRB	221.2	+0.4
CAD	1.2683	+0.3			SGD	1.343	+0.1		DAX	15,723	+0.1	19.2	Wheat Chic.	700.3	+1.9
NZD/AUD	0.9684	+0.2			IDR	14,248	-0.0		CAC 40	6,653	-0.2	31.7	Sugar	18.96	-0.1
NZD/EUR	0.6003	-0.4			THB	32.95	+0.3		Nikkei	30,670	+0.7	30.8	Cotton	94.96	+0.6
NZD/GBP	0.5131	-0.3			KRW	1,171	-0.4		Shanghai	3,663	-1.4	11.1	Coffee	185.5	-0.7
NZD/JPY	77.71	-0.7			TWD	27.68	-0.0		ASX 200	7,437	+0.2	26.2	WM powder	3750.0	+0.0
NZD/CAD	0.8991	-0.1			PHP	49.92	-0.1		NZX 50	13,109	-0.5	11.4	<b>Australian Futures</b>		
NZ TWI	75.26	-0.3											3 year bond	99.768	0.03
													10 year bond	98.80	0.03

Interest Rates						NZ Government Bonds				NZ Swap Yields			
	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	0.31	1.30	USD	1.28	-0.05	NZGB 5 1/2 04/15/23	1.03	-0.01	1 year	1.05	0.02
AUD	0.10	0.01	0.20	1.39	AUD	1.25	-0.02	NZGB 0 1/2 05/15/26	1.53	-0.03	2 year	1.39	0.01
NZD	0.25	0.53	1.39	2.10	NZD	1.86	-0.02	NZGB 0 1/4 05/15/28	1.70	-0.03	5 year	1.79	0.02
EUR	0.00	0.06	-0.46	0.02	GER	-0.34	-0.01	NZGB 1 1/2 05/15/31	1.86	-0.04	7 year	1.92	0.02
GBP	0.10	0.07	0.54	0.93	GBP	0.74	-0.01	NZGB 2 05/15/32	1.93	-0.04	10 year	2.10	0.02
JPY	-0.03	-0.09	0.00	0.09	JPY	0.05	0.00	NZGB 2 3/4 04/15/37	2.28	-0.07	15 year	2.32	0.00
CAD	0.25	0.45	0.80	1.66	CAD	1.17	-0.05	NZGB 1 3/4 05/15/41	2.55	-0.08			

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

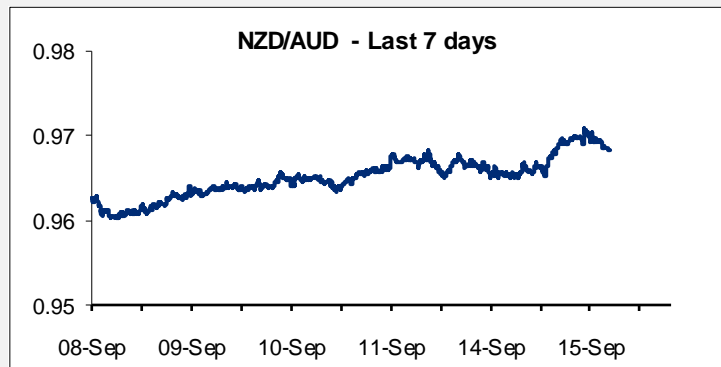
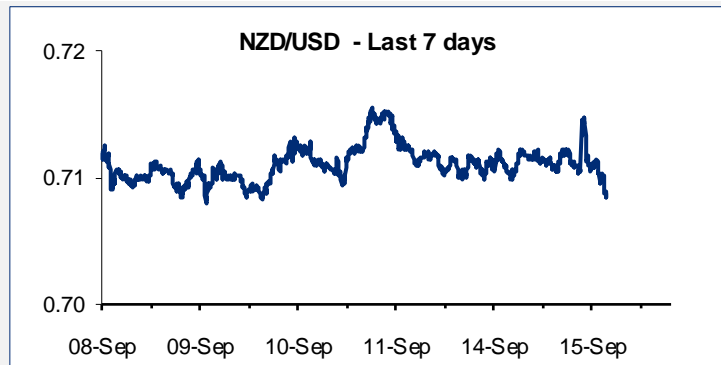
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:58

Source: Bloomberg

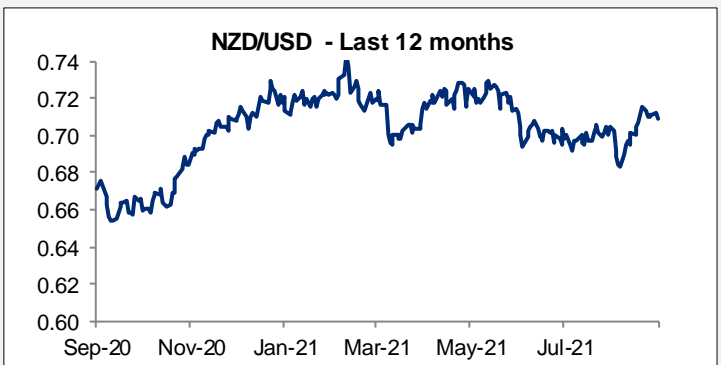
**NZD exchange rates**

15/09/2021	6:58 a.m.	Prev. NY close
USD	0.7089	0.7119
GBP	0.5131	0.5145
AUD	0.9684	0.9661
EUR	0.6003	0.6027
JPY	77.71	78.30
CAD	0.8991	0.9004
CHF	0.6516	0.6562
DKK	4.4639	4.4821
FJD	1.4741	1.4813
HKD	5.5142	5.5387
INR	52.24	52.45
NOK	6.1295	6.1517
PKR	119.82	119.67
PHP	35.39	35.58
PGK	2.4874	2.4961
SEK	6.0993	6.1251
SGD	0.9523	0.9557
CNY	4.5643	4.5930
THB	23.34	23.43
TOP	1.5750	1.5757
VUV	78.23	78.91
WST	1.8221	1.8284
XPF	71.65	72.06
ZAR	10.1604	10.0686



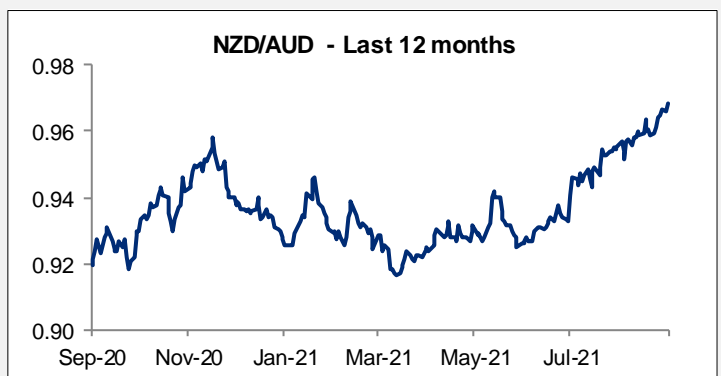
**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.29	0.08
3 Months	-4.83	-4.33
6 Months	-16.03	-15.03
9 Months	-34.51	-32.51
1 Year	-56.80	-54.93



**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.12	-1.35
3 Months	-10.70	-9.73
6 Months	-30.87	-28.76
9 Months	-57.97	-53.90
1 Year	-89.61	-85.11



## Contact Details

### BNZ Research

**Stephen Toplis**  
Head of Research  
+64 4 474 6905

**Craig Ebert**  
Senior Economist  
+64 4 474 6799

**Doug Steel**  
Senior Economist  
+64 4 474 6923

**Jason Wong**  
Senior Markets Strategist  
+64 4 924 7652

**Nick Smyth**  
Senior Interest Rates Strategist  
+64 4 924 7653

### Main Offices

**Wellington**  
Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**  
80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

**Christchurch**  
111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

### National Australia Bank

**Ivan Colhoun**  
Global Head of Research  
+61 2 9237 1836

**Alan Oster**  
Group Chief Economist  
+61 3 8634 2927

**Ray Attrill**  
Head of FX Strategy  
+61 2 9237 1848

**Skye Masters**  
Head of Fixed Income Research  
+61 2 9295 1196

**Wellington**  
Foreign Exchange +800 642 222  
Fixed Income/Derivatives +800 283 269

**New York**  
Foreign Exchange +1 212 916 9631  
Fixed Income/Derivatives +1 212 916 9677

**Sydney**  
Foreign Exchange +61 2 9295 1100  
Fixed Income/Derivatives +61 2 9295 1166

**Hong Kong**  
Foreign Exchange +85 2 2526 5891  
Fixed Income/Derivatives +85 2 2526 5891

**London**  
Foreign Exchange +44 20 7796 3091  
Fixed Income/Derivatives +44 20 7796 4761

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