

16 September 2021



Events Round-Up

NZ: Current a/c bal. (ann. % GDP), Q2: -3.3 vs. -3.3 exp.

CH: Retail sales (y/y%), Aug: 2.5 vs. 7.0 exp.

CH: Industrial production (y/y%), Aug: 5.3 vs. 5.8 exp.

CH: Fixed assets investment (y/y%), Aug: 8.9 vs. 9.0 exp.

UK: CPI (y/y%), Aug: 3.2 vs. 2.9 exp.

UK: CPI core (y/y%), Aug: 3.1 vs. 2.9 exp.

EC: Industrial production (m/m%), Jul: 1.5 vs. 0.6 exp.

CA: CPI (y/y%), Aug: 4.1 vs. 3.9 exp.

CA: CPI core (avg of 3 series y/y%), Aug: 2.6 vs. 2.5 exp.

US: Industrial production (m/m%), Aug: 0.4 vs. 0.5 exp.

Good Morning

US equities have rebounded overnight after a risk-averse trading session during Asian and European time-zones. Following softer US inflation in the previous overnight session, UK and Canadian inflation positively surprised and stronger oil and natural gas prices have added to an inflationary picture, driving global rates higher. Currency markets have been well-contained, with only oil-sensitive CAD and NOK showing much signs of life. The NZD remains stuck around 0.71.

After falling for six of the past seven sessions, the S&P500 has rebounded by 0.8%, perhaps a sign of the buy-the-dip brigade stepping in, a regular feature of the market, which has seen only shallow dips since late last year. Certainly, there is nothing obvious on the fundamental side which seems to have triggered the recovery. Almost all sectors have participated in the bounce, with only Utilities in the red against the backdrop of higher bond yields.

After going to bed last night, one might have half-expected a weak US session, with futures struggling for direction and weaker equity markets across Asia and Europe. The Euro Stoxx 600 index fell by 0.8%, with all key markets lower, and key Asian markets down between 0.5-1.8%.

All the news coming out of China recently has been ostensibly negative, with another outbreak of COVID19 centred in Fujian province, widespread lockdowns causing a soft patch in economic activity, regulatory crackdowns across a wide range of sectors (with casinos added to the mix overnight), and risk of some contagion effect in the property market, with the possible imminent collapse of

Evergrande Group after Chinese authorities told major lenders to the company not to expect interest payments due next week on bank loans.

China activity data for August were weaker than expected across the board, with retail sales growth of just 2.5% y/y being particularly weak. Soft growth has been attributed to widespread lockdown restrictions to contain the spread of the delta variant of COVID19. The renewed spread of the virus in Fujian province will dampen activity in September as well and no doubt many are looking at downgrades for China GDP growth in Q3 and extending into Q4, adding to the global recovery pothole narrative.

UK CPI data were stronger than expected, with both the headline and core rates breaking up through the 3% mark. The BoE has been expecting headline inflation to peak around 4% by the end of this year before heading back down as special factors have driven the inflationary surge. However, the data reinforced market expectations of rate hikes next year, pricing a 15bps lift in Bank Rate to 0.25% in May, followed by a 25bps lift in November. Recall that last week Governor Bailey told Parliament that he was one of the four MPC members who thought that the minimum criteria for tighter UK monetary policy had been met even if he didn't consider there were sufficient grounds to push for immediate tighter policy.

Canadian inflation data were also stronger than expected, with the annual headline rate pushing up over 4% in August to reach an 18-year high and the average of three core measures that the Bank of Canada focuses on pushing up to 2.6%, a 12-year high. The data support the view that another tapering of asset purchases is due next month, while the market expects the first rate hike in Q3 next year.

Oil prices are up about 3%, with Brent crude rising above USD76 a barrel overnight after the EIA reported a larger than expected 6m barrels decline in US crude stockpiles, taking them to their lowest level in two years. US production has recently been held back during the hurricane season. The market is also closely watching the surge in electricity and natural gas prices across Europe, where some prices have reached record highs. These forces on energy prices are adding to the current inflationary backdrop, providing succour to those who don't entirely buy into the "transitory" view of inflation or those who argue we're heading for a period of "stagflation".

This inflationary backdrop sees global rates push higher, with European 10-year rates up in the order of 4bps and the US 10-year rate up 2bps to 1.30% (trading as high as 1.32% overnight), reversing about half of the fall seen following the weaker US CPI figures in the previous session.

Currency markets have been relatively quiet. Oil sensitive NOK and CAD head the overnight leaderboard, up 0.7% and 0.3% respectively, but other currency movements have been 0.2% or less against the USD. The USD is broadly weaker, but not by much, with the BBDXY index down less than 0.2% for the day. After dipping as low as 0.7075 during the local trading session, the NZD has regained the 0.71 handle overnight, with this level being a magnet for trading over the past week. The AUD is slightly higher at 0.7325. NZD/AUD has settled just under the 0.97 mark.

NZ bonds outperformed yesterday, with yields pulled down following the successful issue of the new 30-year bond the previous day, with high spreads against global markets attracting offshore interest. The curve flattened, with longer term NZGBs down in the order of a hefty 9-10bps, and smaller falls around 4-5bps for 3-4 year maturities. NZGB yields fell by more than swap rates, with 10-year swap down "only" 4bps to 2.06%. The 2-year swap rate closed up 1bp to a fresh high of 1.40%, ahead of a likely series of rate hikes by the RBNZ over coming months.

In the day ahead, NZ GDP data for Q2 will be released. While the figures are dated, the consensus sits at 1.1% q/q

with some estimates as high as 1.7%, well above the RBNZ's pick of 0.6%. Therefore, the data are likely to suggest a more positive output gap and higher underlying inflationary pressure just before the latest COVID19 outbreak. Even though we know that growth in the current Q3 quarter will be dire, owing to the lockdowns, a strong rebound thereafter would add to the sense that the OCR needs to head a lot higher, adding to conviction for rate hikes ahead.

Australian employment data will be distorted by the country's lockdown and are therefore of limited value. Tonight sees the release of US retail sales data, expected to be flat at the core level and with weaker auto sales driving headline growth well into negative territory.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	GDP (q/q%)	Q2	1.1	1.6	10:45
AU	Employment change (k)	Aug	-80	2.2	13:30
AU	Unemployment rate (%)	Aug	5.0	4.6	13:30
US	Retail sales (m/m%)	Aug	-0.7	-1.1	00:30
US	Retail sales ex auto, gas (m/m%)	Aug	0.0	-0.7	00:30
US	Initial jobless claims	11-Sep	323	310	00:30
US	Philly Fed business outlook	Sep	19.0	19.4	00:30

Source: Bloomberg, BNZ

Foreign Exchange					Equities			Commodities**					
Indicative overnight ranges (*)					Major Indices			Price					
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.7101	+0.0	0.7091	0.7118	S&P 500	4,478	+0.8	31.7	Oil (Brent)	75.49	+2.5		
AUD	0.7326	+0.1	0.7315	0.7339	Dow	34,791	+0.6	24.3	Oil (WTI)	72.66	+3.1		
EUR	1.1807	+0.0	1.1803	1.1832	Nasdaq	15,143	+0.7	35.3	Gold	1792.3	-0.7		
GBP	1.3831	+0.2	1.3813	1.3854	Stoxx 50	4,146	-1.1	24.4	HRC steel	1923.0	-0.4		
JPY	109.41	-0.3	109.11	109.56	FTSE	7,016	-0.2	14.9	CRB	221.5	+0.1		
CAD	1.2643	-0.4			DAX	15,616	-0.7	18.1	Wheat Chic.	723.8	+1.8		
NZD/AUD	0.9693	-0.1			CAC 40	6,584	-0.5	29.9	Sugar	19.52	+3.0		
NZD/EUR	0.6014	-0.0			Nikkei	30,512	-0.5	30.0	Cotton	94.67	-0.3		
NZD/GBP	0.5134	-0.1			Shanghai	3,656	-0.2	11.3	Coffee	187.4	+1.0		
NZD/JPY	77.69	-0.2			ASX 200	7,417	-0.3	24.5	WM powder	3700.0	-1.3		
NZD/CAD	0.8978	-0.4			NZX 50	13,099	-0.1	10.9	Australian Futures				
NZ TWI	75.31	-0.1							3 year bond	99.655	0.00		
									10 year bond	98.73	-0.02		
Interest Rates					NZ Government Bonds			NZ Swap Yields					
	Rates				Benchmark 10 Yr Bonds								
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last						
USD	0.25	0.12	0.32	1.34	USD	1.30	0.02	NZGB 5 1/2 04/15/23	1.03	0.01	1 year	1.09	0.03
AUD	0.10	0.01	0.20	1.42	AUD	1.21	-0.05	NZGB 0 1/2 05/15/26	1.47	-0.06	2 year	1.40	0.01
NZD	0.25	0.54	1.41	2.06	NZD	1.78	-0.08	NZGB 0 1/4 05/15/28	1.63	-0.08	5 year	1.77	-0.02
EUR	0.00	0.06	-0.46	0.05	GER	-0.31	0.03	NZGB 1 1/2 05/15/31	1.78	-0.08	7 year	1.89	-0.02
GBP	0.10	0.07	0.55	0.97	GBP	0.78	0.04	NZGB 2 05/15/32	1.85	-0.09	10 year	2.06	-0.04
JPY	-0.04	-0.09	-0.01	0.08	JPY	0.04	-0.02	NZGB 2 3/4 04/15/37	2.19	-0.10	15 year	2.27	-0.05
CAD	0.25	0.45	0.82	1.71	CAD	1.22	0.05	NZGB 1 3/4 05/15/41	2.45	-0.09			

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

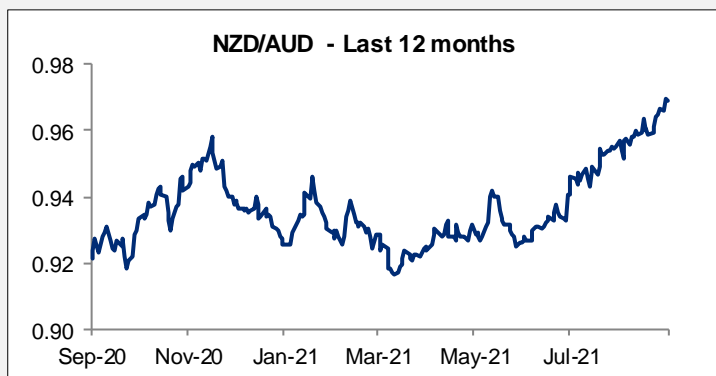
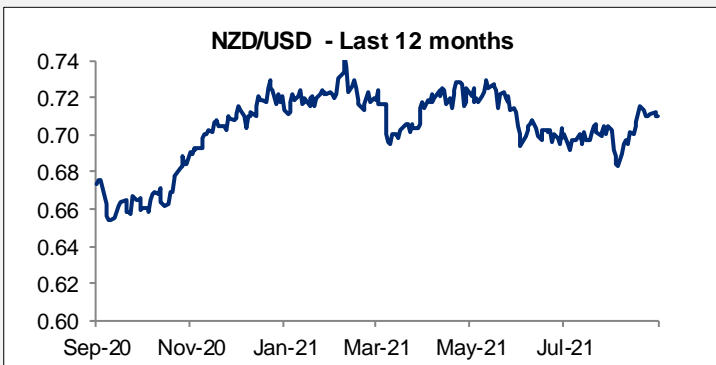
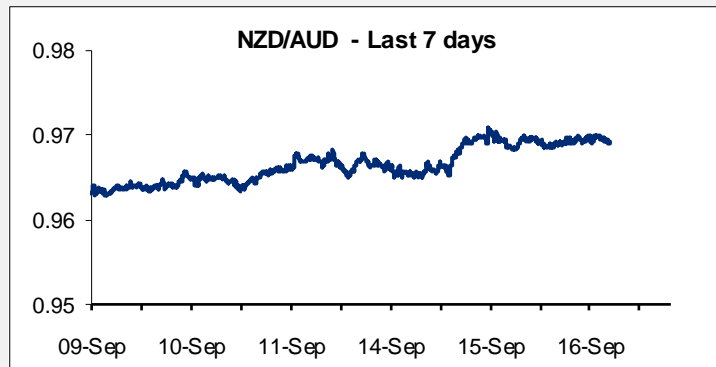
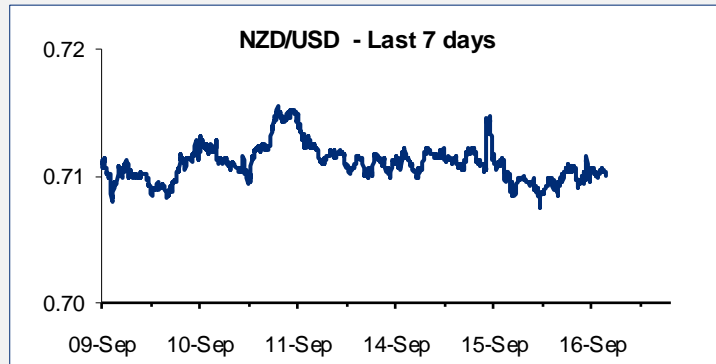
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:02

Source: Bloomberg

NZD exchange rates

16/09/2021	7:02 am	Prev. NY close
USD	0.7101	0.7098
GBP	0.5134	0.5140
AUD	0.9693	0.9697
EUR	0.6014	0.6014
JPY	77.69	77.86
CAD	0.8978	0.9010
CHF	0.6533	0.6533
DKK	4.4721	4.4719
FJD	1.4815	1.4809
HKD	5.5264	5.5209
INR	52.19	52.30
NOK	6.0922	6.1345
PKR	120.02	119.32
PHP	35.36	35.44
PGK	2.4916	2.4905
SEK	6.0979	6.1100
SGD	0.9525	0.9538
CNY	4.5677	4.5701
THB	23.34	23.37
TOP	1.5815	1.5773
VUV	78.59	78.31
WST	1.8191	1.8183
XPF	71.77	71.75
ZAR	10.2440	10.1705



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.21	0.11
3 Months	-5.07	-4.53
6 Months	-16.57	-15.56
9 Months	-35.38	-33.64
1 Year	-58.51	-56.51

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-1.93	-1.33
3 Months	-11.06	-10.00
6 Months	-31.86	-29.62
9 Months	-59.22	-55.51
1 Year	-92.33	-87.47

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