

17 September 2021



Events Round-Up

NZ: GDP (q/q%), Q2: 2.8 vs. 1.1 exp.

AU: Employment change (k), Aug: -146 vs. -80 exp.

AU: Unemployment rate (%), Aug: 4.5 vs. 5.0 exp.

US: Retail sales (m/m%), Aug: 0.7 vs. -0.7 exp.

US: Retail sales ex auto, gas (m/m%), Aug: 2.0 vs. 0.0 exp.

US: Initial jobless claims (k), 11-Sep: 332 vs. 322 exp.

US: Philly Fed business outlook, Sep: 30.7 vs. 19.0 exp.

Good Morning

Post a much stronger than expected US retail sales print, the USD is stronger across the board and US rates are higher. The NZD has lost the gains seen after the stonker Q2 GDP report, languishing back below 0.71.

Some of the risks we noted yesterday remain in play, including worries about possible contagion effects of the pending failure of large property developer Evergrande in China and surging energy costs across Europe. Added into the mix overnight was a stronger retail sales print in the US and how that might affect the outlook for US monetary policy.

An unprecedented surge in UK and Europe natural gas prices, up in the order of 250-300% over the past six months, has got the market's attention. UK gas futures are actually down 10% for the day, but still up over 50% over the past month. Adding higher oil prices into the mix recently, and energy costs across the board are surging, and its inflationary impact acts like a tax on consumers and businesses, a headwind to the economic recovery. That risk got worse, at least for the UK, as a key cable that supplies power from France was knocked out by a fire on Wednesday and will stay partly offline through to March. Alongside higher energy costs, the system is vulnerable to power blackouts over the coming winter.

If we add in the still-negative vibe from news out of China, the USD was in the ascendency in early European trading. Strong US retail sales data added to this market momentum. Total retail sales rose by 0.7% in August, weighed down by a 3.5% fall in auto sales, while the ex-autos and gas figure rebounded by 2.0%. The positive surprise, some 2 percentage points at the core level, was overstated by a chunky downward revision to July figures, but they were still a positive surprise, suggesting less impact on the consumer from the delta wave. With Fed

officials previously noting that the delta outbreak is feeding into its policy assessment, the data triggered a market reaction, extending the market movements seen earlier in the session, with higher rates, a stronger USD and weaker equity futures.

Other data showed slightly higher than expected jobless claims at 332k, possibly a result of seasonal factor issues around the Labour Day holiday, and delayed claims resulting from Hurricane Ida. The trend is still pointing lower. The Philadelphia Fed index was much stronger than expected, but there was a weaker underbelly, with new orders and employment lower. On a positive note, the survey showed less intense supply-side issues leading to lower inflationary pressure.

The US S&P500 index was down as much as 0.8% but has been trying to claw back losses, and is down just 0.2% as we go to print. US Treasury yields are higher across the curve, with the 10-year rate up 3bps to 1.33% and touching an overnight high of 1.35%, a reflection of the market's sensitivity to any pending taper announcement.

The USD shows broadly based gains, up 0.5% on the BBDXY index. EUR, GBP, CAD and JPY are all down 0.4-0.5% overnight. The NZD is near the bottom end of the leaderboard, losing all of its gains seen after yesterday's GDP release. The AUD has slipped below 0.73.

NZ GDP exploded higher in Q2 by 2.8% q/q, well ahead of market and RBNZ expectations of 1.1% and 0.6% respectively. While there were some quirks in the data, they didn't detract from the fact that the economy was on a much stronger footing, with likely much higher excess demand and underlying inflationary pressure, heading into the current lockdown.

The market took that as increasing the chance of the RBNZ raising rates more aggressively from next month, with OIS pricing for the October meeting rising from 29bps worth of hikes to 35.5bps by the end of the day, or in other words a 42% chance of a 50bps hike by the RBNZ to kick off the tightening cycle. That flowed through into other short rates, with the 2-year swap rate rising by 8bps to a fresh high of 1.49%, and the overall curve flattening, with 10-year swap up only 3bps to 2.09%. The NZGB curve also flattened, with rates up 7-8bps out to the 7-year maturity, and longer-term rates up about 2-3bps. Our central view remains that a series of rate hikes is inevitable, but that the RBNZ is more likely to take a cautious approach with only an initial 25bps hike next month.

The NZD saw a knee-jerk move higher to just under 0.7140, before fading. The ramp up in NZ rate hike expectations that began following the much stronger than expected Q1 GDP release in mid-June (2-year swap is up nearly 100bps since then) has only had a modest bearing on the NZD since that day and there was no reason for yesterday to be much different. Indeed, USD strength overnight has added to the NZD's reversal, seeing the currency down to 0.7075, barely higher since the near-100bps ramp up in 2-year swap since mid-June. When it comes to currency markets, not all central banks are treated equally, and the market puts the fate of the NZD in the hands of the Fed than the RBNZ.

NZD/AUD is one of the few, if only, crosses where NZ rate spreads have had a strong bearing over the past few months and the cross printed a fresh high of 0.9728 before fading, settling now around 0.97.

Yesterday, Australian labour market data were distorted by measurement issues during the current lockdown, with employment falling just over 1% or 146k in August alongside yet another fall in the unemployment rate to 4.5%. Hours worked provided the more realistic measure of the labour market, and they fell 3.7% m/m, weighed down by a 6.5% contraction for NSW. The market rightly read nothing into it regarding the RBA policy outlook.

The security pact signed by the Australia, US and UK hasn't gone unnoticed, with Australia siding with the US in

looking to procure at least eight nuclear powered submarines from the country to counteract China's increasing power play in the Western Pacific. A spokesman from China's foreign ministry called out the countries for "outdated cold war zero-sum mentality". The move by Australia can only worsen AU-China relations, raising the risk of China imposing further trade restrictions. To the extent that NZ remains fairly neutral in this geopolitical spat, it is one possible factor for the NZD-AUD cross going forward, although Australia has been successful in diverting affected trade to other countries so we wouldn't overplay this risk.

In the day ahead, NZ's manufacturing PMI was likely affected by the lockdown restrictions that began in August. The US University of Michigan consumer sentiment survey will be interesting tonight, to see whether sentiment recovered a little or not, after the unexpected plunge in August. The consensus is picking a small increase.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	BNZ manufacturing PMI	Aug	62.6	62.6	10:30
UK	Retail sales ex auto fuel (m/m%)	Aug	0.8	-2.4	18:00
US	U. of Mich. cons. sent.	Sep	72.0	70.3	02:00
US	U. of Mich. 5-10-yr inflation exp.	Sep	2.9	2.9	02:00

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		Last	Net Day	
NZD	0.7077	-0.4	0.7060	0.7118	CHF	0.9269	+0.8		S&P 500	4,471	-0.2	32.1	Oil (Brent)	75.61	+0.2
AUD	0.7295	-0.5	0.7274	0.7324	SEK	8.633	+0.6		Dow	34,790	-0.1	24.1	Oil (WTI)	72.53	-0.1
EUR	1.1754	-0.5	1.1750	1.1795	NOK	8.632	+0.7		Nasdaq	15,173	+0.1	37.3	Gold	1752.8	-2.2
GBP	1.3789	-0.4	1.3765	1.3841	HKD	7.783	+0.0		Stoxx 50	4,170	+0.6	24.9	HRC steel	1923.0	+0.0
JPY	109.71	+0.3	109.27	109.83	CNY	6.458	+0.4		FTSE	7,027	+0.2	15.6	CRB	225.5	+1.8
CAD	1.2679	+0.4			SGD	1.345	+0.3		DAX	15,652	+0.2	18.1	Wheat Chic.	724.3	+0.1
NZD/AUD	0.9701	+0.1			IDR	14,253	+0.1		CAC 40	6,623	+0.2	30.5	Sugar	19.49	-0.2
NZD/EUR	0.6021	+0.1			THB	33.13	+0.8		Nikkei	30,323	-0.6	30.0	Cotton	93.41	-1.2
NZD/GBP	0.5132	-0.1			KRW	1,172	+0.1		Shanghai	3,607	-1.3	10.3	Coffee	188.2	+0.4
NZD/JPY	77.64	-0.1			TWD	27.71	+0.1		ASX 200	7,460	+0.6	26.8	WM powder	3700.0	+0.0
NZD/CAD	0.8973	-0.1			PHP	49.97	+0.3		NZX 50	13,080	-0.2	11.1	Australian Futures		
NZ TWI	75.30	-0.1											3 year bond	99.63	-0.02
													10 year bond	98.69	-0.05

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	0.33	1.37	USD	1.33	0.03	NZGB 5 1/2 04/15/23	1.11	0.08	1 year	1.17	0.08
AUD	0.10	0.01	0.21	1.46	AUD	1.26	0.06	NZGB 0 1/2 05/15/26	1.53	0.06	2 year	1.49	0.08
NZD	0.25	0.61	1.49	2.09	NZD	1.83	0.06	NZGB 0 1/4 05/15/28	1.70	0.07	5 year	1.81	0.04
EUR	0.00	0.06	-0.45	0.07	GER	-0.30	0.00	NZGB 1 1/2 05/15/31	1.83	0.05	7 year	1.93	0.04
GBP	0.10	0.07	0.57	1.01	GBP	0.82	0.04	NZGB 2 05/15/32	1.89	0.04	10 year	2.09	0.03
JPY	-0.04	-0.09	0.00	0.09	JPY	0.05	0.02	NZGB 2 3/4 04/15/37	2.22	0.03	15 year	2.29	0.02
CAD	0.25	0.45	0.84	1.71	CAD	1.23	0.01	NZGB 1 3/4 05/15/41	2.48	0.02			

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

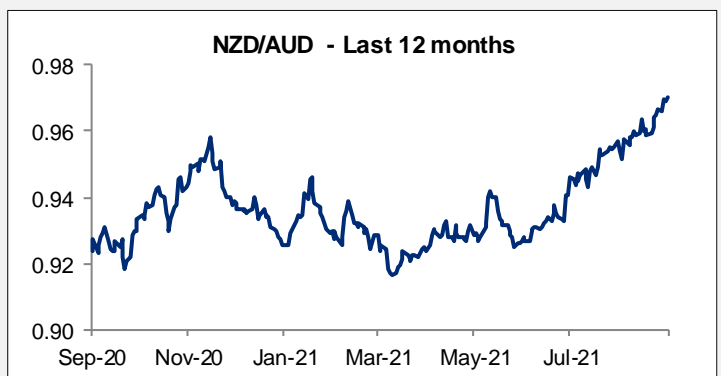
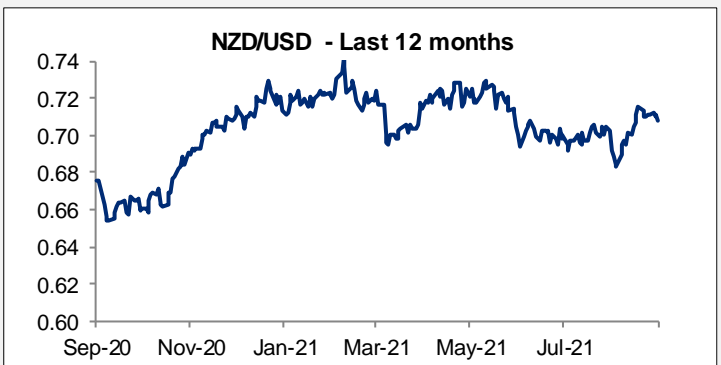
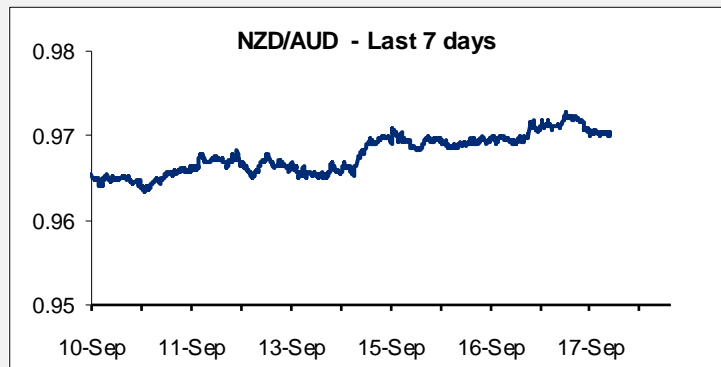
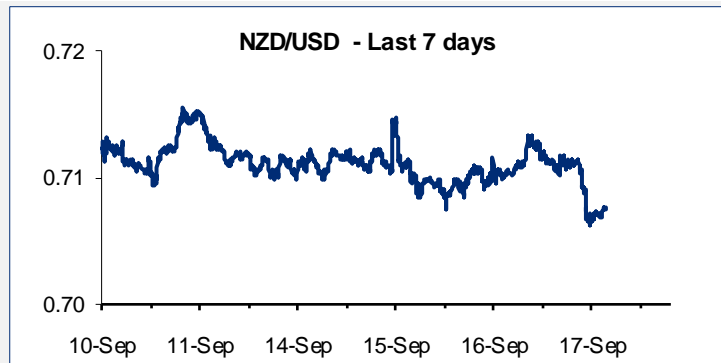
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:00

Source: Bloomberg

NZD exchange rates

17/09/2021	7:01 am	Prev. NY close
USD	0.7077	0.7106
GBP	0.5132	0.5134
AUD	0.9701	0.9690
EUR	0.6021	0.6013
JPY	77.64	77.73
CAD	0.8973	0.8975
CHF	0.6560	0.6536
DKK	4.4771	4.4717
FJD	1.4759	1.4807
HKD	5.5081	5.5298
INR	52.03	52.22
NOK	6.1087	6.0925
PKR	119.03	120.11
PHP	35.36	35.38
PGK	2.4616	2.4933
SEK	6.1096	6.0974
SGD	0.9520	0.9528
CNY	4.5700	4.5709
THB	23.38	23.36
TOP	1.5681	1.5826
VUV	78.25	78.66
WST	1.8158	1.8191
XPF	71.65	71.82
ZAR	10.3292	10.2405



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.44	-0.13
3 Months	-6.04	-5.54
6 Months	-19.41	-18.41
9 Months	-39.73	-38.07
1 Year	-63.89	-61.89

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.00	-1.39
3 Months	-12.18	-11.12
6 Months	-35.60	-33.53
9 Months	-65.30	-61.50
1 Year	-99.52	-94.67

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