

21 July 2021



## Events Round-Up

JN: CPI ex fresh food, energy (y/y%), Jun: -0.2 vs. -0.2 exp.

CH: 1-Year loan prime rate (%), Jul: 3.85 vs. 3.85 exp.

US: Building permits (k), Jun: 1598 vs. 1700 exp.

US: Housing starts (k), Jun: 1643 vs. 1590 exp.

NZ: GDT dairy auction price index: -2.9%

## Good Morning

There has been little news overnight, but US equities have bounced back, recovering yesterday's losses. Other asset classes aren't showing the same reversal. The US 10-year rate is barely higher and, while commodity currencies have outperformed overnight, movements have been small.

After yesterday's sharp 1.6% fall in the S&P500, the market has bounced back by 1.7%. While yesterday's fall was attributed to rising fears of the spread of the delta variant of COVID19 and rising geopolitical tensions with China, neither of those factors have changed.

China predictably responded, with a Chinese Foreign Ministry spokesman saying that "the US has ganged up with its allies and launched an unwarranted accusation against China on cybersecurity...it is purely a smear and suppression out of political motives".

Meanwhile the risks around the spread of COVID19 haven't suddenly vanished. The US CDC estimates that the delta variant of COVID19 now makes up 83% of new cases, up from 50% earlier this month. A director of the CDC told a Senate committee that the US was experiencing a "pandemic of the unvaccinated" and noted that in almost two-thirds of US counties, less than 40% of people had been vaccinated. This sets the scene for a significant ramp-up in case numbers across much of the US, as currently being seen in the UK.

While US equities have bounced back strongly, other markets don't show the same pattern. The Euro Stoxx 600 index only rose by 0.5%, making up less than a quarter of yesterday's loss. The US 10-year rate printed a fresh five-month low just below 1.13%, before reversing course. It now trades at 1.21%, only a couple of bps higher from this time yesterday.

In currency markets, CAD has been the best performer, helped by modest gains in the order of over 1% for crude

oil, with USD/CAD down 0.5% to just below 1.27. The AUD and NZD have also outperformed overnight, but barely so and off a low base, with the NZD still below levels seen this time yesterday. The NZD hit fresh year-to-date lows overnight, down to 0.6881 and is back trading near 0.6925. The AUD fell to a new low of 0.7300 and is back around 0.7330.

Not helping sentiment, South Australia imposed a one-week lockdown, and Victoria extended its lockdown by a week. Adding in the current lockdown in NSW, half of Australia is facing restrictions, which will act as a significant drag on GDP, slicing at least 2 percentage points off growth, taking it well into negative territory.

That dynamic isn't doing any good for NZD sentiment, given the close ties between the NZ and Australian economies. We all realise that NZ could easily suffer the same fate on one slip-up at the border triggering some community transmission of the virus. This is probably why NZD/AUD hasn't pushed on up further this week. Indeed, the cross is slightly lower at 0.9440 as traders reassess how aggressive any RBNZ tightening of policy will be against the current pandemic risks.

The domestic rates market remains well supported despite the ending of the RBNZ's bond buying programme this week. Fears of the market needing to absorb in increased supply from next week are apparently non-existent. The 10-year NZGB fell by 10bps to 1.51%, outperforming Australia. Curves flattened a bit further. The 2-year swap rate fell by 6bps to 1.00% while the 10-year rate fell by 9bps to 1.72%. In the OIS market, the odds for a 25bps hike in August was repriced to a 66% chance, down from just over 80%.

The overnight GDT dairy auction showed a 2.9% fall in the price index, with whole milk powder down 3.8% and skim milk powder down 5.2%. This was the seventh consecutive fall off a very high base. Weaker prices have been expected and, along with a weaker NZD, and should have minimal change in expectations for the expected milk payout.

In economic data overnight, US housing market data were mixed, with starts rising by more than expected in June while permits unexpectedly fell to an eight-month low, but the former is the leading indicator and has been trending lower alongside mortgage applications. Thus, overall the data adds to the story of fading economic activity for the housing market.

The economic calendar remains light, with Australian retail sales for June expected to be weak at minus 0.7% m/m.

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## Coming Up

	Period	Cons.	Prev.	NZT
AU Retail sales (m/m%)	Jun	-0.7	0.4	13:30

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	0.6924	-0.3	0.6881	0.6925	CHF	0.9211	+0.4		S&P 500	4,328	+1.6	33.1	Oil (Brent)	69.59	+1.4					
AUD	0.7333	-0.2	0.7300	0.7335	SEK	8.702	+0.2		Dow	34,551	+1.7	29.5	Oil (WTI)	67.42	+1.4					
EUR	1.1783	-0.1	1.1756	1.1802	NOK	9.009	+0.7		Nasdaq	14,537	+1.8	35.0	Gold	1809.5	+0.0					
GBP	1.3628	-0.3	1.3572	1.3677	HKD	7.772	+0.0		Stoxx 50	3,956	+0.7	16.8	HRC steel	1780.0	-0.3					
JPY	109.83	+0.3	109.33	109.96	CNY	6.485	-0.1		FTSE	6,881	+0.5	9.9	CRB	209.0	+1.7					
CAD	1.2689	-0.5			SGD	1.366	+0.2		DAX	15,216	+0.5	16.6	Wheat Chic.	709.8	+0.5					
NZD/AUD	0.9442	-0.1			IDR	14,518	+0.1		CAC 40	6,347	+0.9	24.6	Sugar	17.41	+2.0					
NZD/EUR	0.5876	-0.2			THB	32.82	-0.1		Nikkei	27,388	-1.0	19.7	Cotton	88.87	+2.5					
NZD/GBP	0.5081	+0.1			KRW	1,150	+0.2		Shanghai	3,537	-0.1	6.5	Coffee	166.8	+6.6					
NZD/JPY	76.05	+0.1			TWD	28.06	+0.0		ASX 200	7,252	-0.5	17.8	WM powder	3750.0	+0.3					
NZD/CAD	0.8786	-0.8			PHP	50.77	+0.7		NZX 50	12,651	-0.0	7.8	<b>Australian Futures</b>							
NZ TWI	73.76	-0.2											3 year bond	99.715	0.00					
													10 year bond	98.82	-0.02					
Interest Rates																				
	Rates				Swap Yields				Benchmark 10 Yr Bonds				NZ Government Bonds				NZ Swap Yields			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last	Net Day		Last	Net Day		Last	Net Day				
USD	0.25	0.13	0.27	1.19	USD	1.21	0.02	NZGB 5 1/2 04/15/23	0.74	-0.05	1 year	0.79	-0.06							
AUD	0.10	0.02	0.22	1.30	AUD	1.18	-0.07	NZGB 2 3/4 04/15/25	1.02	-0.06	2 year	1.00	-0.06							
NZD	0.25	0.46	1.00	1.72	NZD	1.51	-0.08	NZGB 4 1/2 04/15/27	1.20	-0.07	5 year	1.39	-0.08							
EUR	0.00	0.06	-0.47	-0.05	GER	-0.41	-0.02	NZGB 3 04/20/29	1.39	-0.08	7 year	1.55	-0.08							
GBP	0.10	0.07	0.44	0.82	GBP	0.56	0.00	NZGB 1 1/2 05/15/31	1.51	-0.10	10 year	1.72	-0.09							
JPY	-0.05	-0.08	-0.03	0.02	JPY	0.01	-0.01	NZGB 2 3/4 04/15/37	1.99	-0.09	15 year	1.94	-0.09							
CAD	0.25	0.44	0.78	1.61	CAD	1.17	0.02	NZGB 1 3/4 05/15/41	2.27	-0.09										

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

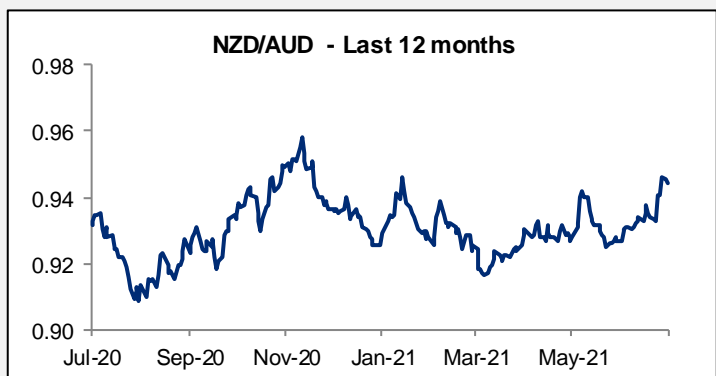
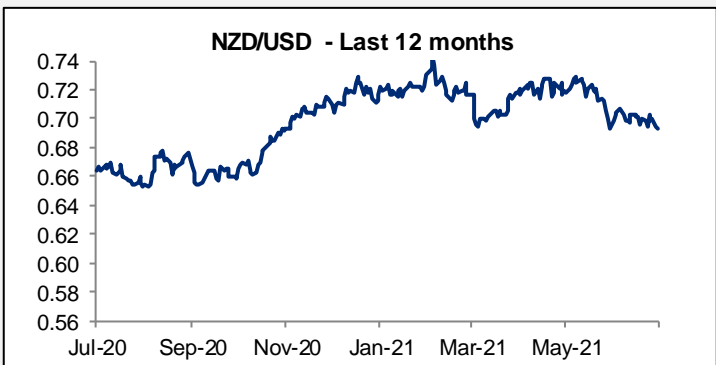
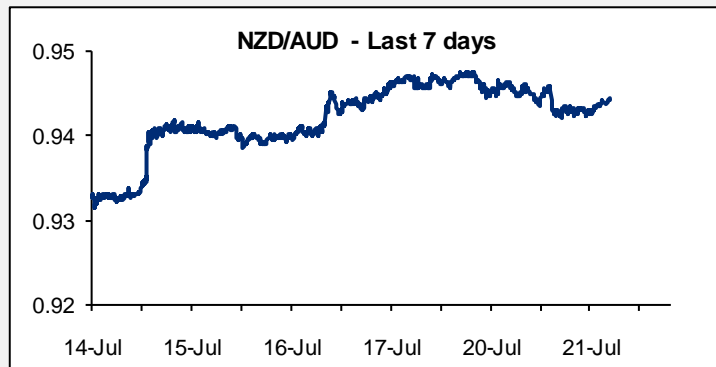
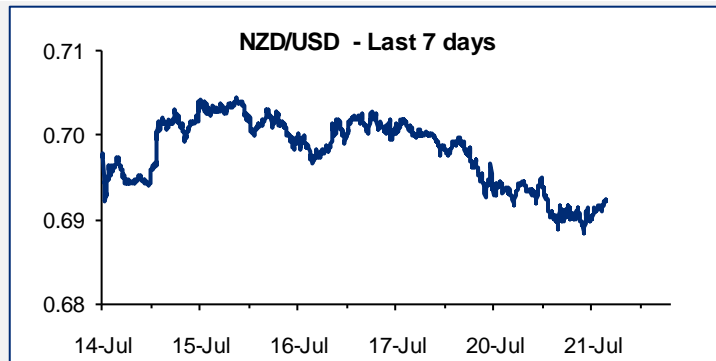
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:04

Source: Bloomberg

**NZD exchange rates**

21/07/2021 7:04 am		Prev. NY close
USD	0.6924	0.6944
GBP	0.5081	0.5078
AUD	0.9442	0.9455
EUR	0.5876	0.5885
JPY	76.05	76.01
CAD	0.8786	0.8854
CHF	0.6378	0.6371
DKK	4.3712	4.3776
FJD	1.4488	1.4503
HKD	5.3816	5.3962
INR	51.66	51.99
NOK	6.2378	6.2133
PKR	111.35	111.01
PHP	34.86	34.89
PGK	2.4269	2.4365
SEK	6.0253	6.0319
SGD	0.9460	0.9468
CNY	4.4902	4.5070
THB	22.72	22.82
TOP	1.5542	1.5493
VUV	76.82	76.68
WST	1.7669	1.7813
XPF	69.67	69.72
ZAR	10.1380	10.1162



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.65	-0.34
3 Months	-3.96	-3.44
6 Months	-11.89	-10.89
9 Months	-23.70	-21.70
1 Year	-37.28	-35.28

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.30	-1.63
3 Months	-9.44	-8.28
6 Months	-24.98	-22.69
9 Months	-42.29	-38.12
1 Year	-60.84	-56.46

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