

22 July 2021



Events Round-Up

AU: Retail sales (m/m%), Jun: -1.8 vs. -0.7 exp.

Good Morning

Equity markets have recovered further overnight, with Monday's fears now seemingly a distant memory. Unlike yesterday, better risk sentiment is evident across other asset classes as well, with US Treasury yields up towards 1.3%, commodity prices rebounding and commodity currencies recovering nicely.

Risk sentiment has improved, with this being attributed overnight to the great start to the US earnings season, with 85% of companies reporting so far beating expectations. With cash near zero, Treasury yields so low, and corporate bond spreads near record lows, the theme of TINA – There Is No Alternative – has no doubt supported the stock market. The S&P has gained for a second day, currently up 0.7%, with Monday's losses now looking like just a blip on the radar and the index back within 1% of last week's record high. Earlier, the Euro Stoxx 600 index closed 1.7% higher.

Fears of the spread of the delta variant of COVID19 remain back of mind, but those concerns have been put to one side for another day. The WSJ reports that the highly contagious variant doesn't pose an immediate risk to the strength of the US recovery, with limited disruptions, and analysts expecting a robust expansion to continue in the second half. That thesis will be put to the test over coming weeks as new case numbers explode, as they have in the UK. Indeed, the UK is being watched closely as a test case and the country, currently with almost no restrictions, will give a good steer as to whether hospitalisation and death rates can remain low as the delta variant spreads through unvaccinated cohorts which are mostly younger folk.

While the stock market is sensitive to earnings beats and forward guidance, this earnings season the bond market might pay more attention than usual to comments around inflation pressures. Bloomberg has noted inflation concerns expressed by a large range of companies in the reporting season so far. The CEO of PPG (paints and coatings producer) said that the inflation cycle was much higher than anticipated and the company is working to secure further selling price increases. Coca Cola's CFO thought that in 2022 there would be more cost pressures ahead, while the CEO of industrial supplies distributor

Fastenal noted the likelihood of persistent cost pressures due to the shortage on international capacity and "there's a ton of inflation going on". JP Morgan CEO Jamie Dimon said that inflation could be worse than people think. The list of companies expressing similar sentiments goes on.

Increased risk appetite has driven a selloff across global bond markets. The US 10-year rate has traded a wide 11bps range since the NZ close, initially falling to 1.19% and reaching a high of 1.30%, currently up 7bps at 1.28%. Recall that little more than 24 hours ago the rate traded down at a five-month low of less than 1.13%, so there has been a remarkable turnaround in bond market sentiment.

Commodity prices are mainly higher, including a more than 4% lift in oil prices. Brent crude is trading at USD72.20. Bad news for coffee drinkers as coffee is up 5.5%, nearing a five-year high with a severe frost affecting Brazil's crop.

In currency markets, safe haven currencies are out of favour, with the yen, USD and EUR in that mix while commodity currencies have rebounded, with overnight gains in the order of 0.7-0.8% for the AUD and NZD and a 1.2% gain for CAD. GBP has also rebounded around 0.7% after being hit hard early this week, the market ignoring the return of Brexit headlines. Arguments over the Brexit deal headline the FT this morning, with the EU insisting that it will not renegotiate the deal after the UK warned it was willing to suspend part of the deal unless the EU agreed to new trading rules for Northern Ireland.

After the NZ close, the NZD took another brief look below 0.69, before making a strong run to a high of 0.6977 and it currently trades near that level. The AUD made a fresh year-to-date low of 0.7290 before starting a run up to 0.7360. Australian retail sales were much weaker than expected, falling 1.8% m/m in June, dragged lower by a number of lockdowns and the current widespread lockdowns will mean even weaker numbers for July. This has supported a recovery in NZD/AUD to 0.9475. Key NZD crosses are higher including NZD/EUR back up through 0.59 and NZD/JPY up over 1% and approaching 77.

The domestic rates market saw swap rates up 1-2bps and NZGBs up 2-4bps. Traders will be pleased that the RBNZ's bond buying programme has now finished, which will allow for more natural market conditions, liquidity, better price discovery and less volatility. The Australian 10-year bond future is up 4bps in yield since the NZ close, which will set the tone for the market open.

The ECB meets tonight and isn't expected to make any change to policy settings and no new forecasts will be presented. However, there is expected to be a lively debate on how the new looser inflation target might affect the near-term policy outlook. The economic calendar remains light. US initial jobless claims are expected to nudge down further.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
AU	NAB business confidence	Q2		17	13:30
EC	ECB deposit facility rate (%)	Jul	-0.5	-0.5	23:45
US	Initial jobless claims (k)	17-Jul	350	360	00:30
US	Existing home sales (m)	Jun	5.90	5.80	02:00
EC	Consumer confidence	Jul	-2.6	-3.3	02:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Other FX				Major Indices			Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day				
NZD	0.6972	+0.8	0.6894	0.6977	CHF	0.9174	-0.5		S&P 500	4,353	+0.7	33.6	Oil (Brent)	72.14	+4.0
AUD	0.7357	+0.4	0.7290	0.7360	SEK	8.684	-0.2		Dow	34,775	+0.8	29.6	Oil (WTI)	70.20	+4.4
EUR	1.1799	+0.2	1.1752	1.1804	NOK	8.873	-1.5		Nasdaq	14,601	+0.7	36.7	Gold	1804.5	-0.4
GBP	1.3716	+0.7	1.3592	1.3721	HKD	7.773	-0.0		Stoxx 50	4,027	+1.8	18.2	HRC steel	1780.0	+0.3
JPY	110.27	+0.4	109.89	110.39	CNY	6.468	-0.3		FTSE	6,998	+1.7	11.6	CRB	213.0	+1.9
CAD	1.2561	-1.0			SGD	1.363	-0.1		DAX	15,423	+1.4	17.1	Wheat Chic.	719.8	+1.6
NZD/AUD	0.9477	+0.4			IDR	14,543	+0.2		CAC 40	6,464	+2.2	26.6	Sugar	17.67	+1.5
NZD/EUR	0.5909	+0.6			THB	32.83	-0.0		Nikkei	27,548	+0.6	21.1	Cotton	89.09	+0.1
NZD/GBP	0.5083	+0.1			KRW	1,154	+0.3		Shanghai	3,563	+0.7	6.9	Coffee	176.0	+6.4
NZD/JPY	76.88	+1.2			TWD	28.06	-0.0		ASX 200	7,309	+0.8	20.3	WM powder	3665.0	-2.3
NZD/CAD	0.8758	-0.2			PHP	50.37	-0.8		NZX 50	12,709	+0.5	8.4	Australian Futures		
NZ TWI	74.13	+0.6											3 year bond	99.695	-0.02
													10 year bond	98.78	-0.03
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		Last				
USD	0.25	0.14	0.29	1.28	USD	1.28	0.06	NZGB 5 1/2 04/15/23	0.75	0.02	1 year	0.80	0.01		
AUD	0.10	0.03	0.22	1.35	AUD	1.16	-0.02	NZGB 2 3/4 04/15/25	1.04	0.02	2 year	1.02	0.01		
NZD	0.25	0.45	1.02	1.78	NZD	1.55	0.03	NZGB 4 1/2 04/15/27	1.22	0.02	5 year	1.41	0.02		
EUR	0.00	0.06	-0.47	-0.03	GER	-0.40	0.02	NZGB 3 04/20/29	1.42	0.03	7 year	1.57	0.02		
GBP	0.10	0.07	0.44	0.87	GBP	0.60	0.04	NZGB 1 1/2 05/15/31	1.54	0.03	10 year	1.75	0.02		
JPY	-0.05	-0.08	-0.03	0.04	JPY	0.02	0.01	NZGB 2 3/4 04/15/37	2.02	0.04	15 year	1.96	0.02		
CAD	0.25	0.44	0.78	1.67	CAD	1.23	0.05	NZGB 1 3/4 05/15/41	2.31	0.04					

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

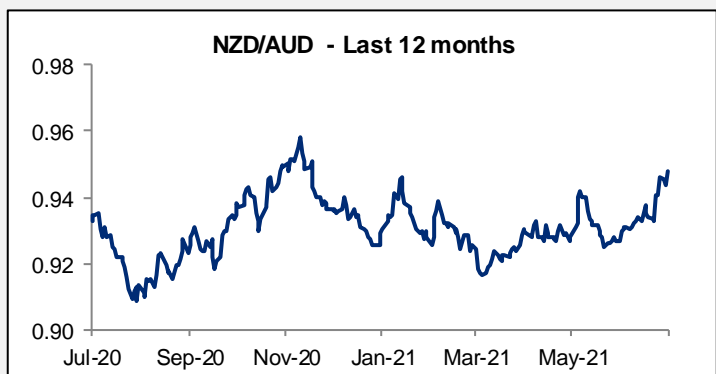
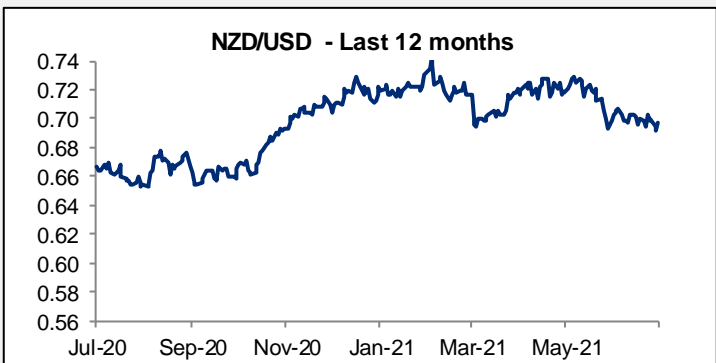
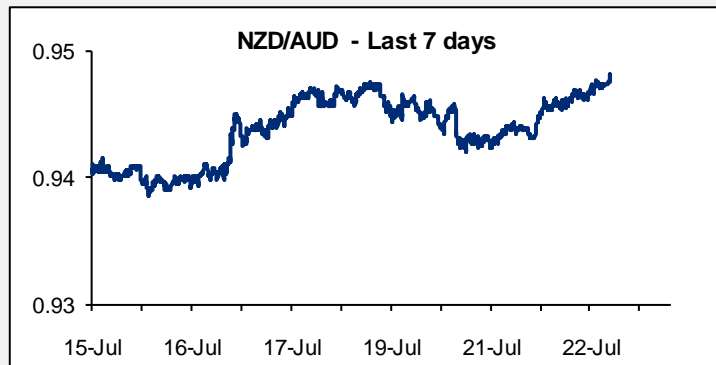
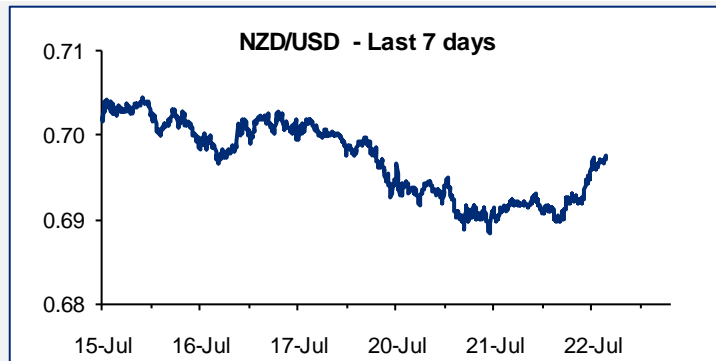
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:04

Source: Bloomberg

NZD exchange rates

22/07/2021	7:04 am	Prev. NY close
USD	0.6972	0.6918
GBP	0.5083	0.5076
AUD	0.9477	0.9438
EUR	0.5909	0.5872
JPY	76.88	75.99
CAD	0.8758	0.8773
CHF	0.6396	0.6376
DKK	4.3953	4.3678
FJD	1.4598	1.4485
HKD	5.4191	5.3774
INR	52.02	51.80
NOK	6.1865	6.2306
PKR	112.12	110.60
PHP	35.12	34.83
PGK	2.4463	2.4248
SEK	6.0543	6.0194
SGD	0.9506	0.9446
CNY	4.5095	4.4863
THB	22.91	22.70
TOP	1.5625	1.5529
VUV	77.46	76.76
WST	1.7819	1.7668
XPF	70.15	69.46
ZAR	10.1537	10.1013



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.67	-0.36
3 Months	-4.28	-3.87
6 Months	-12.71	-11.71
9 Months	-24.67	-22.92
1 Year	-39.31	-37.31

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.29	-1.63
3 Months	-9.85	-8.91
6 Months	-26.13	-23.94
9 Months	-43.53	-39.84
1 Year	-64.01	-59.34

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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.