

23 August 2021



Events Round-Up

JN: CPI ex fresh food, energy (y/y%), Jul: -0.6 vs. -0.8 exp.

CH: 1-year loan prime rate (%), Aug: 3.85 vs. 3.85 exp.

UK: Retail sales ex auto fuel (m/m%), Jul: -2.4 vs. 0.1 exp.

Good Morning

Risk asset markets recovered on Friday, after what had been a rocky week. Equity markets were higher in the US and Europe, industrial commodities rebounded, and the US 10-year rate nudged up, to 1.26%. The shift in market sentiment appeared to follow comments by Dallas Fed President Kaplan, one of the 'hawks' on the committee to this point, who said he was open minded about delaying tapering if there was evidence the Delta variant was dampening demand. The NZD and AUD stabilised on Friday but were still heavily down on the week. OCR expectations were pared back on Friday, despite further hawkish messages from RBNZ Governor Orr, as the market focused on rising Covid-19 cases numbers and the growing list of high-risk locations of interest.

Dallas Fed President Kaplan has been one of the more hawkish voices on the Fed for several months, having been the first on the committee to make the case for tapering back in April. So, markets paid attention when he told Fox on Friday that he was open to a delay in tapering if the Delta variant was shown to be hurting demand in the economy. To be clear, Kaplan's current view is that the Delta variant is mainly hampering the supply side of the economy, for instance by delaying the return to work of those worried about getting Covid-19, with little evidence that it is hindering consumer demand. But he called the Delta variant the "the big imponderable" to the outlook and said he was open to changing his view that it is mainly a supply-side problem, one that QE can do little to solve.

Equity markets reacted positively to the hint that one of the more hawkish Fed members was open to delaying tapering. S&P500 futures, which had been down around 0.5% before Kaplan's comments, quickly turned higher, with the index eventually ending up 0.8% on the day, while the NASDAQ gained 1.1% and the Eurostoxx 600 index was up 0.3%. Friday also saw a recovery in some of the recently beaten-up commodities, with copper bouncing back 1.6%, while Singapore-listed iron ore futures rising around 5% from their closing levels on Friday morning, although they were still down some 13% on the week. Oil

prices bucked the trend, with the Brent crude oil spot price down 1.5% on Friday, taking its loss on the week to 5.6%.

Despite the gains on Friday, equity markets were down across the board last week (S&P500 -0.6%, Eurostoxx -1.5%) due to concerns around slowing Chinese and global growth, related in part to the spread of the Delta variant, and apparent nerves around the Fed's plan to taper back its QE bond buying. Asian equity markets saw big falls last week, among them the Hang Seng (-5.8%) which fell into bear market territory. Markets remain wary about the regulatory crackdown by the Chinese authorities, with Xinhua reporting on Friday that a new data protection law had been passed, the latest in a string of regulatory actions aimed largely at the tech sector.

Movements in currency and bond markets were more subdued on Friday. The US 10-year rate nudged 1bp higher, to 1.26%, having traded down at 1.23% earlier in the session. The BBDXY USD index made a fresh 9-month high in the New York morning, but Kaplan's comments appeared to trigger a reversal and it ended little changed on the day. The BBDXY was up 1.3% last week, its third biggest week gain over the past 12 months.

Illustrating the lack of movement in FX markets on Friday, all the G10 currencies were within 0.2% of their closes from the previous session. The NZD had a couple of forays towards the 0.68 mark, before recovering back to around 0.6830 at the end of the week. On the week, the NZD and AUD were both down heavily (-2.9% and -3.2% respectively) amidst a stronger USD, weaker commodities, growing risk aversion and with both countries (a large part of Australia at least) now in lockdown.

NSW recorded more than 800 Covid-19 cases over both Saturday and Sunday, illustrating just how difficult the Delta variant is to contain, even after a lockdown in Sydney that is coming up on two months. NSW's Premier announced that Sydney's lockdown would be extended until at least the end of September, with masks to be made mandatory outdoors and curfews put in place in parts of Western Sydney.

In New Zealand, community infections in the current Covid-19 outbreak are up to 72, with 21 new cases reported on both Saturday and Sunday. The list of locations of interest continues to grow, including high-risk settings such as schools, hospitals, universities, churches, and corporate functions. The government is due to

provide an update around the alert levels this afternoon, with Auckland and Wellington almost certain to remain in Level 4 for some time longer.

Another hawkish interview from RBNZ Governor Orr fell on deaf ears on Friday, with another chunky (5bps to 7bps) fall in swap rates across the curve. Orr told Bloomberg that October was a “live” meeting, that he wouldn’t rule out raising the OCR simply because of the lockdown and that it would require a significant shock to demand in the economy to prevent hikes. He added that an OCR below 2% would still be stimulatory, given this was the RBNZ’s current estimate of the ‘neutral’ OCR.

The market remains unconvinced and continued to push back the expected timing of OCR hikes. Pricing for the August meeting implies a roughly 50% chance of a rate hike, down from almost 80% after the MPS. The market appears to be associating the timing of ‘lift-off’ with the likelihood of the Delta variant being brought under control and the country coming out of lockdown despite RBNZ Governor Orr stating this isn’t a precondition for hikes.

In other news, Bloomberg reported that Treasury Secretary (and former Fed Chair) Janet Yellen has backed the reappointment of current Fed Chair Powell for a second term. Biden is reportedly deciding whether to reappoint Powell or promote current Fed Governor Brainard, seen as one of the most dovish members of the committee on monetary policy.

Finally, Pfizer’s vaccine is due to get full regulatory authorisation from the US FDA early this week according to

Bloomberg. The vaccine was granted emergency use authorisation late last year.

The highlight in the week ahead is the annual Jackson Hole symposium and especially Chair Powell’s keynote address on Friday night on the economic outlook. The market will be watching closely for any further clues from Powell around the possible timing of tapering. The ‘flash’ European PMIs for August are released tonight and are expected to remain at historically elevated levels, consistent with very strong growth in the Eurozone. The focus domestically will remain on Covid-19 case numbers.

nick.smyth@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
GE	Markit Germany Manufacturing PMI	Aug P	65	65.9	19:30
GE	Markit Germany Services PMI	Aug P	61	61.8	19:30
EC	Markit Eurozone Manufacturing PMI	Aug P	62	62.8	20:00
EC	Markit Eurozone Services PMI	Aug P	59.5	59.8	20:00
UK	Markit UK PMI Manufacturing SA	Aug P	59.5	60.4	20:30
UK	Markit UK Services PMI	Aug P	59.1	59.6	20:30
US	Markit US Manufacturing PMI	Aug P	62.3	63.4	01:45
US	Markit US Services PMI	Aug P	59.2	59.9	01:45
US	Existing Home Sales (m)	Jul	5.84	5.86	02:00
EC	Consumer Confidence	Aug	-4.9	-4.4	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	0.6835	-0.1	0.6805	0.6842	CHF	0.9171	-0.2	S&P 500	4,442	+0.8	31.2	Oil (Brent)	65.18	-1.9
AUD	0.7132	-0.2	0.7106	0.7149	SEK	8.802	-0.0	Dow	35,120	+0.6	26.6	Oil (WTI)	62.14	-2.1
EUR	1.1698	+0.2	1.1664	1.1705	NOK	9.027	-0.1	Nasdaq	14,715	+1.2	30.6	Gold	1781.0	+0.0
GBP	1.3623	-0.1	1.3602	1.3636	HKD	7.791	+0.0	Stoxx 50	4,148	+0.6	27.2	HRC steel	1880.0	+0.0
JPY	109.78	+0.0	109.57	109.88	CNY	6.502	+0.1	FTSE	7,088	+0.4	18.1	CRB	207.0	-1.0
CAD	1.2821	-0.1			SGD	1.362	-0.2	DAX	15,808	+0.3	23.8	Wheat Chic.	728.3	-2.0
NZD/AUD	0.9584	+0.1			IDR	14,453	+0.3	CAC 40	6,626	+0.0	35.3	Sugar	19.58	-1.1
NZD/EUR	0.5843	-0.2			THB	33.36	-0.0	Nikkei	27,013	-1.0	17.9	Cotton	93.90	+0.5
NZD/GBP	0.5017	+0.0			KRW	1,180	+0.3	Shanghai	3,427	-1.1	1.4	Coffee	181.5	+0.1
NZD/JPY	75.03	+0.1			TWD	28.03	+0.2	ASX 200	7,461	-0.1	22.1	WM powder	3565.0	+0.1
NZD/CAD	0.8763	-0.0			PHP	50.38	-0.3	NZX 50	12,940	-0.1	9.3	Australian Futures		
NZ TWI	73.37	+0.0										3 year bond	99.785	0.01
												10 year bond	98.94	0.00
Interest Rates							NZ Government Bonds				NZ Swap Yields			
Rates		Swap Yields		Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last				
USD	0.25	0.13	0.32	1.27	USD	1.26	0.01	NZGB 5 1/2 04/15/23	0.83	-0.05	1 year	0.83	-0.07	
AUD	0.10	0.01	0.19	1.21	AUD	1.08	-0.00	NZGB 2 3/4 04/15/25	1.13	-0.05	2 year	1.17	-0.05	
NZD	0.25	0.37	1.17	1.86	NZD	1.59	-0.05	NZGB 4 1/2 04/15/27	1.31	-0.05	5 year	1.56	-0.05	
EUR	0.00	0.06	-0.50	-0.11	GER	-0.50	-0.01	NZGB 3 04/20/29	1.49	-0.05	7 year	1.70	-0.06	
GBP	0.10	0.07	0.46	0.80	GBP	0.52	-0.02	NZGB 1 1/2 05/15/31	1.59	-0.06	10 year	1.86	-0.07	
JPY	-0.05	-0.10	-0.02	0.04	JPY	0.01	-0.01	NZGB 2 3/4 04/15/37	2.06	-0.06	15 year	2.07	-0.07	
CAD	0.25	0.44	0.81	1.61	CAD	1.14	0.01	NZGB 1 3/4 05/15/41	2.33	-0.05				

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

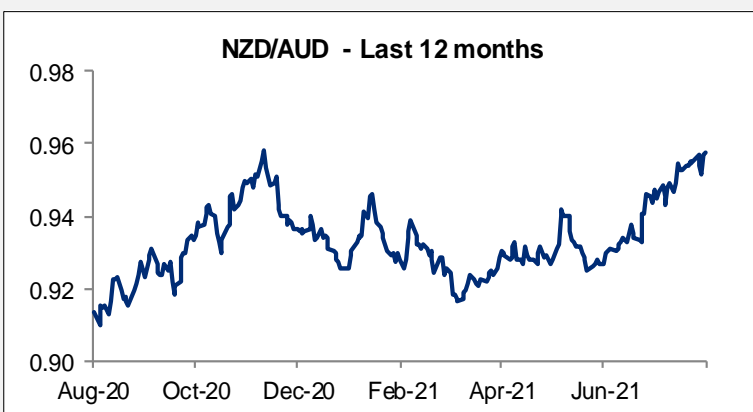
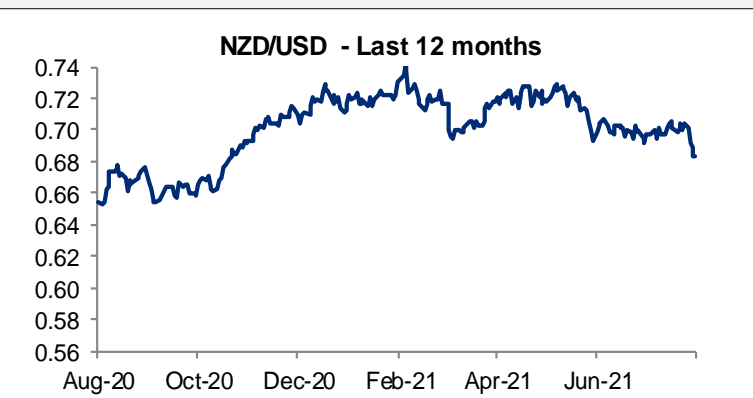
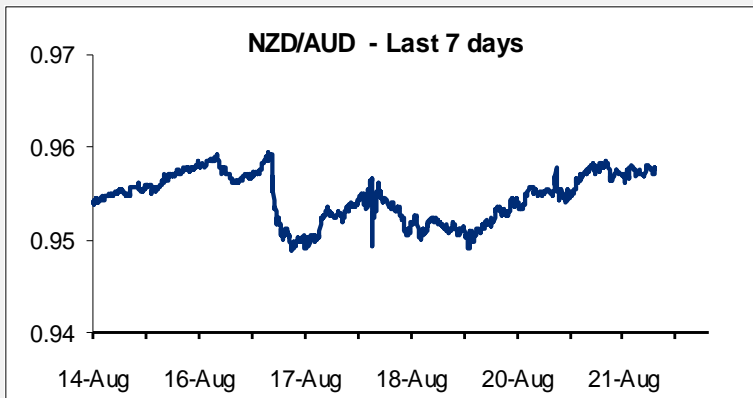
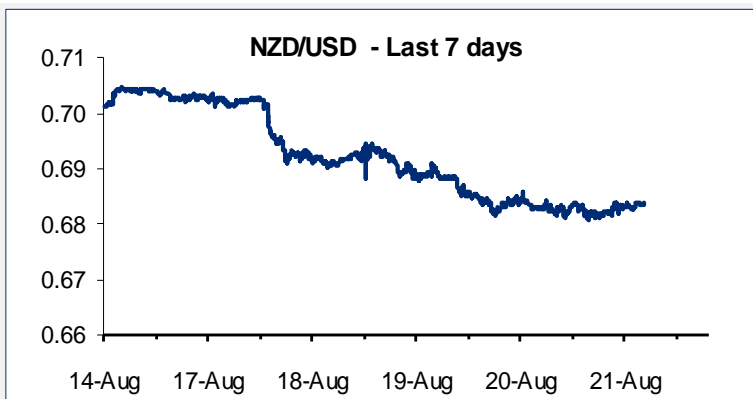
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New York close

Source: Bloomberg

NZD exchange rates

21/08/2021	NY close	Prev. NY close
USD	0.6835	0.6839
GBP	0.5017	0.5014
AUD	0.9584	0.9569
EUR	0.5843	0.5858
JPY	75.03	75.05
CAD	0.8763	0.8773
CHF	0.6268	0.6284
DKK	4.3449	4.3560
FJD	1.4496	1.4456
HKD	5.3251	5.3276
INR	50.85	50.78
NOK	6.1698	6.1809
PKR	112.17	112.18
PHP	34.44	34.57
PGK	2.3966	2.3963
SEK	6.0160	6.0202
SGD	0.9311	0.9333
CNY	4.4438	4.4419
THB	22.81	22.80
TOP	1.5339	1.5421
VUV	76.78	76.54
WST	1.7596	1.7527
XPF	69.20	69.67
ZAR	10.4543	10.4036



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.39	-0.04
3 Months	-2.31	-1.79
6 Months	-10.02	-9.02
9 Months	-23.30	-21.30
1 Year	-41.33	-39.33

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-1.97	-1.29
3 Months	-7.66	-6.58
6 Months	-24.34	-22.15
9 Months	-45.89	-41.58
1 Year	-73.38	-68.23

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.