

24 August 2021



## Events Round-Up

GE: Markit manufacturing PMI, Aug: 62.7 vs. 65.0 exp.

GE: Markit services PMI, Aug: 61.5 vs. 61.0 exp.

EC: Markit manufacturing PMI, Aug: 61.5 vs. 62.0 exp.

EC: Markit services PMI, Aug: 59.7 vs. 59.5 exp.

UK: Markit PMI manufacturing, Aug: 60.1 vs. 59.5 exp.

UK: Markit services PMI, Aug: 55.5 vs. 59.1 exp.

US: Markit manufacturing PMI, Aug: 61.2 vs. 62.0 exp.

US: Markit services PMI, Aug: 55.2 vs. 59.2 exp.

US: Existing home sales (m), Jul: 5.99 vs. 5.83 exp.

EC: Consumer confidence, Aug: -5.3 vs. -4.9 exp.

## Good Morning

Risk appetite has begun the new week on a positive note, supported by COVID19-related news, sending US equities to a fresh record high and the USD broadly lower from its year-to-date high printed on Friday. Positive sentiment has driven a big lift in commodity prices, including a 5+% gain in oil prices and commodity currencies lead the charge. The AUD has regained the 0.72 handle while the NZD is probing the 0.69 mark. US Treasuries remain little changed.

After fear encircled markets last week, evidenced by the 5-day average of our risk appetite index falling to its lowest level in three months, we are pleased to report that risk sentiment turned higher pretty much from the get-go as the new week began. It is not obvious what the trigger was that set off the change in sentiment from soon after the market open, but we can point to a number of news items that have supported the move as the day has progressed.

Yesterday, China reported zero new community cases of COVID19 for the first time since its current outbreak began just over a month ago, showing some success with its stringent lockdowns and restrictions. In other China-centric news, Bloomberg reported comments from the PBoC following a meeting analysing money and credit aggregates, reporting that the central bank called for efforts to push down real lending rates and pledging to support the economy with appropriate money growth. The PBoC Governor Yi said that the central bank would boost credit support for the real economy, especially small companies.

In overnight news, the FDA reported that it had given final approval for the Pfizer vaccine, the first COVID19 vaccine used in the US to get the nod. Up until now, the vaccine has only been approved for emergency use. There is hope that its final approval will encourage those so far reluctant to be jabbed to accept that the vaccine is safe and effective.

With the spread of the delta variant widely considered a handbrake on risk appetite over the past couple of months any news that provides hope that the worst is over is seen to be market-positive. On that note, while new cases of COVID19 continue to lift in the US, the numbers are falling in the original delta-variant hotspots such as Missouri and Arkansas, where new cases are down 12% from their peak. There is also a slowing in new case numbers for Florida and Louisiana, two states that followed the initial delta wave. The rest of the US is seeing rising daily case numbers, but at a slower pace.

The positive market vibe that began in Asia has been infectious, with US equities showing strong gains, with the S&P500 currently up 1% to a fresh record high, while the Nasdaq index is up 1.7%. The local NZ equity market has shown no harm from the current COVID19 outbreak, with the NZX50 up 1% and taking its gain since the first community case was reported up to 3%.

While other asset classes are making decent moves, the fixed income markets are sitting this one out. The US 10-year rate has been in a tight 1.25-1.28% range. Traders are probably reluctant to do much this side of Fed Chair Powell's keynote speech at Jackson Hole at the end of the week. The domestic rates market also showed little sign of life, with rates barely changing across the swaps and bond curves and little trading activity.

After their recent poor run, commodity markets have sprung into life, with Brent crude up over 5% to USD68.65, going a long way to recovering last week's loss, and broadly based gains evident across a wide range of commodities, both copper and silver up over 2%.

In currency markets, commodity-sensitive currencies lead the charge with the AUD up over 1% to 0.7215 and the NZD up close to 1% to hit the 0.69 mark. In our weekly currency update yesterday we noted that the near 3% fall last week had taken the spot rate to some 5% below our short-term fair value estimate, the largest gap in 19 months.

PM Ardern announced an extension of the harsh level 4 lockdown restriction currently imposed on the country through to Friday night, with another review that day, while Auckland's current restrictions will extend through to the end of the August. The early lockdown at the first sign of the outbreak, when only one case was discovered, and their extension, provide plenty of hope that NZ can control the outbreak. As for the path of the NZD, we think the local COVID19 outbreak will have little bearing on its fortunes and it's the global backdrop that matters more.

NZD/AUD is fairly flat, but other key NZD crosses are higher. Less so against GBP, which has been one of the better performers, with GBP/USD up 0.8% to 1.3730, while JPY has been a laggard alongside the USD, seeing NZD/JPY up nearly 1% to 75.7.

Overnight economic data releases haven't had any noticeable impact on the market. PMI data released were a mixed bag. In the euro area, services PMIs held up at very strong levels, while Germany's manufacturing PMI was notably weaker than expected, albeit apparently more a reflection of supply shortages. Separately, German's Bundesbank flagged that Germany's economic rebound could be weaker than expected as the delta variant and slowing vaccination rates could lead to stricter protection measures.

In the UK, the more important services PMI fell by much more than expected, but this likely reflected the "pingdemic" (since largely ended), resulting in significant staff shortages as they self-isolated at home following potential exposure to COVID19.

In the US, the services PMI also came in much weaker than expected, falling to an eight-month low, but again reflecting supply side issues, with the survey compiler Markit reporting increasing frustrations in relation to hiring staff. US existing home sales unexpectedly rose, up 2% to 5.99m, with a seasonal lift in inventory helping meet increased demand.

The economic calendar is light for the day ahead. NZ retail sales for Q2 are expected to show another very strong increase, consistent with other economic indicators showing very strong economic momentum ahead of the latest COVID19 outbreak.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Real retail sales (q/q%)	Q2	2.0	2.5	10:45
US	New home sales (k)	Jul	699	676	02:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices			Price				
	Last	% Day	Low	High	Last	% Day	Last	% Day	% Year	Last	Net Day			
NZD	0.6899	+0.9	0.6832	0.6904	CHF	0.9124	-0.5	S&P 500	4,488	+1.0	32.1	Oil (Brent)	68.66	+5.3
AUD	0.7215	+1.2	0.7149	0.7217	SEK	8.703	-1.1	Dow	35,393	+0.8	26.7	Oil (WTI)	65.55	+5.5
EUR	1.1749	+0.4	1.1707	1.1750	NOK	8.901	-1.4	Nasdaq	14,961	+1.7	32.3	Gold	1803.2	+1.2
GBP	1.3731	+0.8	1.3633	1.3732	HKD	7.793	+0.0	Stoxx 50	4,176	+0.7	28.1	HRC steel	1884.0	+0.2
JPY	109.69	-0.1	109.68	110.15	CNY	6.482	-0.3	FTSE	7,109	+0.3	18.4	CRB	211.9	+2.4
CAD	1.2646	-1.3			SGD	1.356	-0.5	DAX	15,853	+0.3	24.2	Wheat Chic.	734.5	+0.9
NZD/AUD	0.9562	-0.1			IDR	14,413	-0.3	CAC 40	6,683	+0.8	36.5	Sugar	19.58	+0.0
NZD/EUR	0.5872	+0.5			THB	33.24	-0.4	Nikkei	27,494	+1.8	19.6	Cotton	94.54	+0.6
NZD/GBP	0.5024	+0.3			KRW	1,174	-0.5	Shanghai	3,477	+1.5	2.7	Coffee	181.9	+0.2
NZD/JPY	75.68	+0.9			TWD	27.97	-0.2	ASX 200	7,490	+0.4	22.2	WM powder	3545.0	-0.6
NZD/CAD	0.8724	-0.4			PHP	50.26	-0.2	NZX 50	13,064	+1.0	9.6	<b>Australian Futures</b>		
NZ TWI	73.70	+0.5										3 year bond	99.765	-0.02
												10 year bond	98.91	-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	0.13	0.31	1.26	USD	1.25	-0.00	NZGB 5 1/2 04/15/23	0.83	0.00	1 year	0.84	0.01
AUD	0.10	0.01	0.20	1.24	AUD	1.10	0.02	NZGB 2 3/4 04/15/25	1.13	0.00	2 year	1.18	0.01
NZD	0.25	0.39	1.18	1.87	NZD	1.59	-0.01	NZGB 4 1/2 04/15/27	1.31	-0.01	5 year	1.56	0.00
EUR	0.00	0.06	-0.50	-0.11	GER	-0.48	0.01	NZGB 3 04/20/29	1.48	-0.01	7 year	1.70	0.00
GBP	0.10	0.07	0.47	0.81	GBP	0.54	0.01	NZGB 1 1/2 05/15/31	1.59	-0.00	10 year	1.87	0.01
JPY	-0.05	-0.10	-0.02	0.04	JPY	0.02	0.01	NZGB 2 3/4 04/15/37	2.05	-0.01	15 year	2.08	0.01
CAD	0.25	0.44	0.82	1.63	CAD	1.16	0.02	NZGB 1 3/4 05/15/41	2.32	-0.01			

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

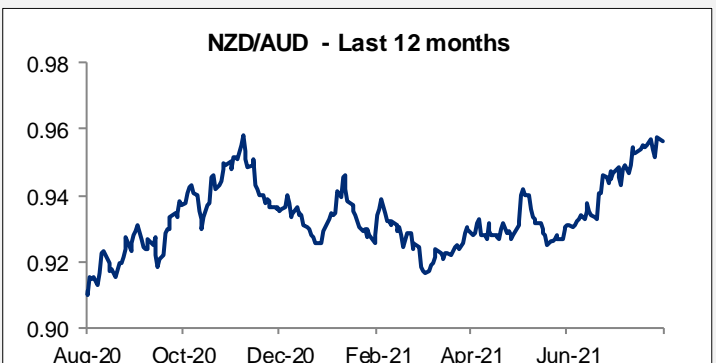
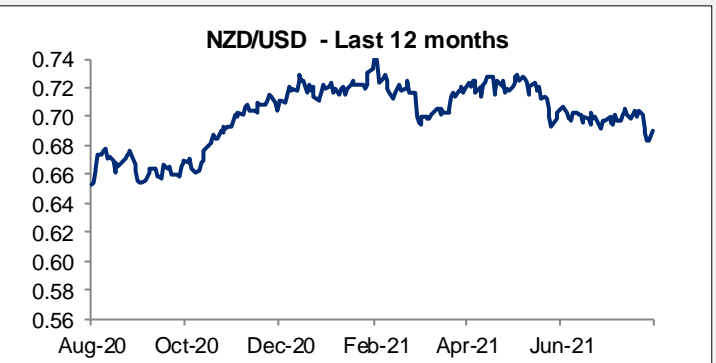
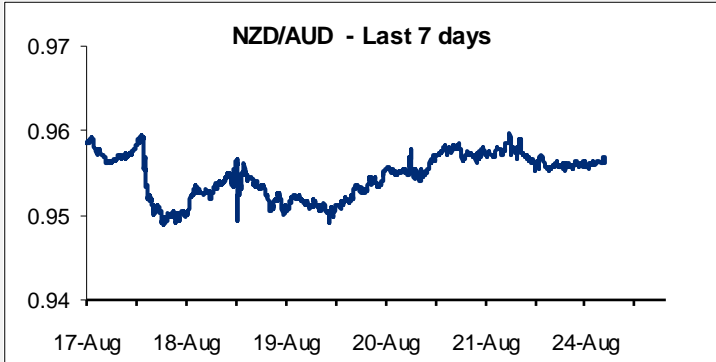
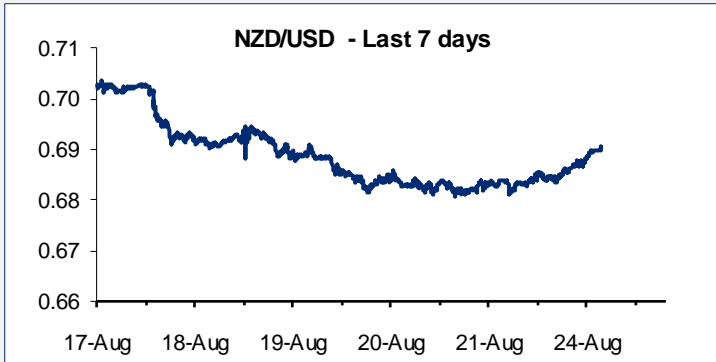
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:04

Source: Bloomberg

**NZD exchange rates**

24/08/2021 7:05 am		Prev. NY close
USD	0.6899	0.6835
GBP	0.5024	0.5017
AUD	0.9562	0.9584
EUR	0.5872	0.5843
JPY	75.68	75.03
CAD	0.8724	0.8763
CHF	0.6295	0.6268
DKK	4.3669	4.3449
FJD	1.4617	1.4518
HKD	5.3762	5.3251
INR	51.20	50.85
NOK	6.1409	6.1698
PKR	113.22	112.11
PHP	34.67	34.44
PGK	2.4301	2.3966
SEK	6.0043	6.0160
SGD	0.9356	0.9311
CNY	4.4717	4.4438
THB	23.01	22.81
TOP	1.5510	1.5339
VUV	77.85	76.78
WST	1.7852	1.7596
XPF	69.99	69.20
ZAR	10.4376	10.4543



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.46	-0.12
3 Months	-2.49	-2.04
6 Months	-10.45	-9.45
9 Months	-24.08	-22.33
1 Year	-42.23	-40.23

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.07	-1.33
3 Months	-7.76	-6.74
6 Months	-24.63	-22.45
9 Months	-46.28	-42.53
1 Year	-73.40	-68.62

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