

25 August 2021



Events Round-Up

NZ: Real retail sales (q/q%), Q2: 3.3 vs. 2.5 exp.

US: New home sales (k), Jul: 708 vs. 697 exp.

Good Morning

There hasn't been much news to digest, but the rally in risk assets that began from the get-go this week has extended, seeing US equities rise to another fresh record high, higher commodity prices and commodity currencies leading the charge. The NZD and AUD are up 0.5-0.6% overnight to 0.6950 and 0.7255 respectively. US Treasury yields have nudged higher.

In yesterday's update we reported that less fear about China's economic outlook supported the improvement in risk sentiment, with the first day of zero new community cases of COVID19 in over a month and the PBoC showing a willingness to ease credit conditions in the economy to support small businesses. Another day of low COVID19 cases (just 1 suspected in the community) and signs that traffic activity has picked up (up 12% higher in Beijing over the past week) have added to the market support.

We saw one scribe describe the improved risk sentiment this week "on hopes Powell will keep the charade going on for just a little bit longer", a reference to his Jackson Hole speech at the end of the week where he may (or more likely not) give clearer guidance on the path to normalisation for US monetary policy. Analysts are inclined to believe that a firm taper decision won't be made on Friday, and not until we see at least one or maybe two more strong employment reports.

The government-spends-Fed-prints-money cycle looks set to extend, with the \$1 trillion infrastructure and \$3.5 trillion spending package one step closer. The WSJ reported that House Democratic leaders made a last-minute commitment to vote on passing the bipartisan infrastructure bill by the end of next month (27 Sept), in hopes of closing a rift with centrist Democrats and clearing the way for a vote later Tuesday advancing President Biden's legislative agenda. This would enable the packages to pass without the need for Republican support.

The S&P500 is currently up 0.2%, led by the cyclical sectors. The US 10-year Treasury rate remains in a consolidation mode – having tracked sideways for the past month – and is up 4bps to 1.29%.

Commodity markets remain well supported, with Brent crude up another 3% to USD71 per barrel, now up about 9% for the week so far. Iron ore traded on the Singapore exchange rose 2% to USD151 per tonne, up over 15% from last Thursday's close. Most commodities in Bloomberg's index are higher, with the index itself up 1.4% following yesterday's 2.2% gain.

Commodity sensitive currencies have outperformed, with the NZD up 0.6% overnight to 0.6950 and the AUD up 0.5% to 0.7255. NZD/AUD temporarily broke up through resistance of 0.96 last night but has settled back down to 0.9575. The other majors show little movement against the USD although the bias for the USD is to the downside against all, with the BBDXY index down 0.2% for the day. All key NZD crosses are higher, with NZD/EUR back up through 0.59, NZD/JPY up through 76 and NZD/GBP up to 0.5060.

After the local close, the NZD got a lift after Bloomberg reported an interview with Assistant Governor Hawkesby. The comments were not new as the RBNZ has been unequivocal in its guidance on monetary policy on the day of the MPS, the day after, and the day after the day after, and more of the same this week, with a series of post-MPS interviews by Governor Orr and others.

By this time, some of the sceptical offshore folk should hopefully be getting the message that the delay to the rate hike cycle wasn't because of the local COVID19 outbreak *per se*, but because of the timing of the MPS, literally the first day of the highest-level lockdown. In maintaining a medium-term focus the RBNZ's message is clear that fiscal policy is better placed to fill a gap in incomes due to any COVID19 outbreak, while monetary policy needs to be directed towards getting the economy on a more sustainable footing by removing policy stimulus to get the OCR back to at least a neutral level of 2% to contain inflationary pressure. BNZ's economics team is fully onboard with this view, with a long series of rate hikes expected beginning October.

NZ rates were higher across the NZGB and swaps curves yesterday in the order of 3-4bps. The OIS market prices the October meeting at 0.40%, so with only 15bps of a hike priced in, albeit up slightly from the 0.37% level over the previous couple of days. The long end of the curve was influenced by higher Australian rates, as the pricing for a new 2032 inflation-linked bond put upward pressure on

Australian long end rates. Very strong retail sales data for Q2 didn't move the market but confirmed that the NZ economy was on a strong footing ahead of the local COVID19 outbreak.

Finally, the US CDC reported what many others have done so already, that the effectiveness of COVID19 vaccines among frontline workers declined to 66% after the delta variant became dominant, compared to 91% before it arose, suggesting that vaccine effectiveness might wane over time. France will administer booster shots to the elderly and vulnerable from October, joining a range of other countries that are likely to do the same. NZ has yet to consider whether it will go down the track of offering booster shots.

On the calendar ahead, Germany's IFO survey of businesses and US durable goods orders are the key releases.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade balance (\$m)	Jul		261	10:45
GE	IFO expectations	Aug	100.0	101.2	20:00
GE	IFO business climate	Aug	100.4	100.8	20:00
US	Durable goods orders (m/m%)	Jul	-0.3	0.9	00:30
US	Durables ex trans. (m/m%)	Jul	0.5	0.5	00:30

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.6945	+0.8	0.6927	0.6966	S&P 500	4,491	+0.3	30.9	Oil (Brent)	71.07	+3.4
AUD	0.7256	+0.7	0.7221	0.7271	Dow	35,432	+0.3	25.2	Oil (WTI)	67.58	+3.0
EUR	1.1753	+0.1	1.1727	1.1765	Nasdaq	15,020	+0.5	32.0	Gold	1805.6	+0.1
GBP	1.3730	+0.1	1.3694	1.3747	Stoxx 50	4,178	+0.0	25.4	HRC steel	1881.0	+0.2
JPY	109.68	-0.0	109.41	109.88	FTSE	7,126	+0.2	16.7	CRB	215.1	+1.5
CAD	1.2595	-0.5			DAX	15,906	+0.3	21.7	Wheat Chic.	732.3	-0.2
NZD/AUD	0.9571	+0.1			CAC 40	6,664	+0.3	33.1	Sugar	19.58	+0.0
NZD/EUR	0.5909	+0.7			Nikkei	27,732	+0.9	19.0	Cotton	95.76	+1.2
NZD/GBP	0.5058	+0.7			Shanghai	3,514	+1.1	4.2	Coffee	185.8	+2.1
NZD/JPY	76.17	+0.7			ASX 200	7,503	+0.2	21.8	WM powder	3545.0	+0.0
NZD/CAD	0.8747	+0.3			NZX 50	13,072	+0.1	9.0	Australian Futures		
NZ TWI	74.04	+0.5							3 year bond	99.745	-0.02
									10 year bond	98.85	-0.06

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	0.32	1.30	USD	1.29	0.04	NZGB 5 1/2 04/15/23	0.86	0.03	1 year	0.86	0.02
AUD	0.10	0.01	0.21	1.30	AUD	1.15	0.06	NZGB 2 3/4 04/15/25	1.17	0.04	2 year	1.21	0.04
NZD	0.25	0.39	1.23	1.91	NZD	1.62	0.04	NZGB 4 1/2 04/15/27	1.34	0.04	5 year	1.59	0.03
EUR	0.00	0.06	-0.50	-0.10	GER	-0.48	0.00	NZGB 3 04/20/29	1.52	0.04	7 year	1.73	0.03
GBP	0.10	0.07	0.48	0.82	GBP	0.54	0.00	NZGB 1 1/2 05/15/31	1.62	0.04	10 year	1.91	0.04
JPY	-0.05	-0.10	-0.02	0.04	JPY	0.02	-0.00	NZGB 2 3/4 04/15/37	2.09	0.04	15 year	2.12	0.04
CAD	0.25	0.44	0.82	1.65	CAD	1.19	0.02	NZGB 1 3/4 05/15/41	2.36	0.04			

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

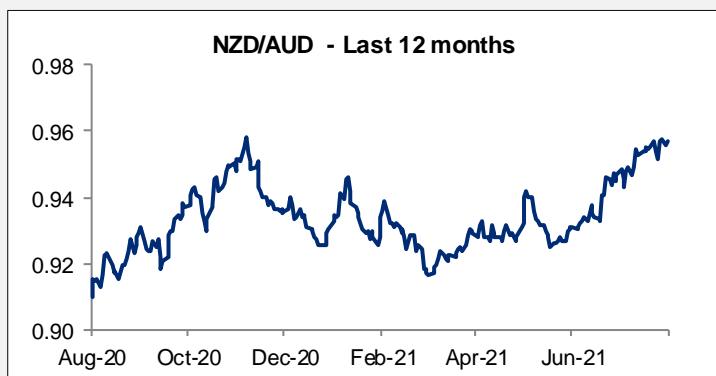
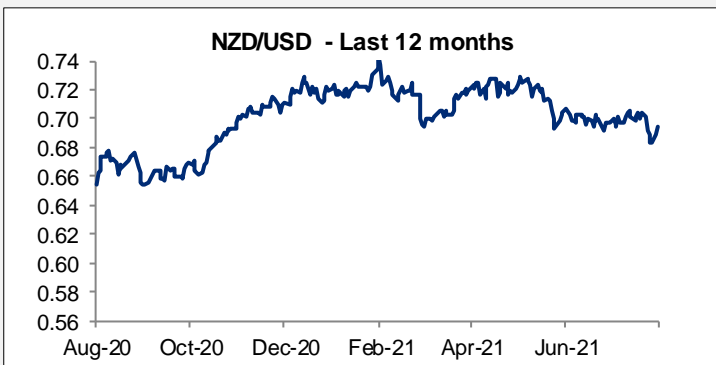
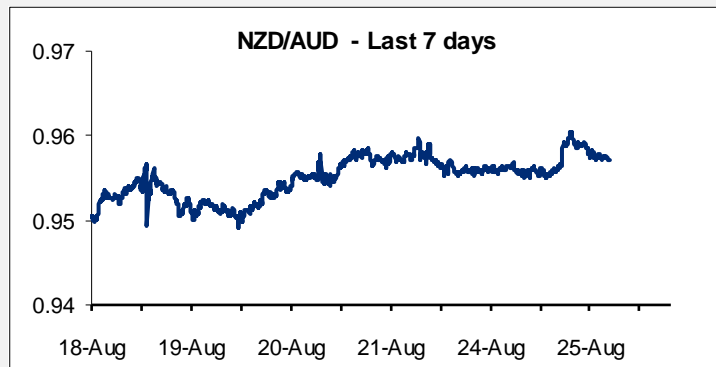
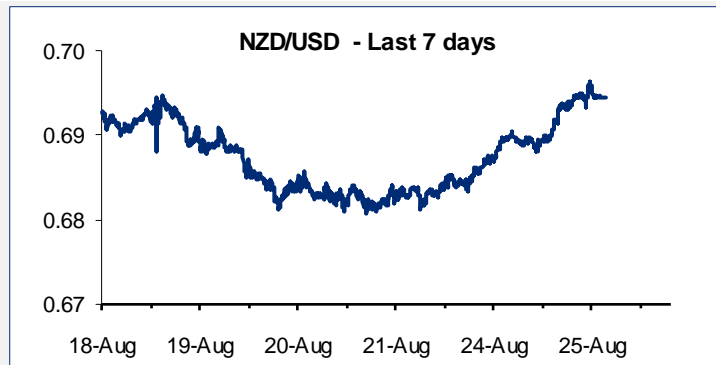
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:50

Source: Bloomberg

NZD exchange rates

25/08/2021 6:51 am		Prev. NY close
USD	0.6945	0.6892
GBP	0.5058	0.5024
AUD	0.9571	0.9560
EUR	0.5909	0.5868
JPY	76.17	75.61
CAD	0.8747	0.8721
CHF	0.6340	0.6288
DKK	4.3946	4.3637
FJD	1.4636	1.4571
HKD	5.4086	5.3707
INR	51.53	51.15
NOK	6.1338	6.1479
PKR	114.59	113.11
PHP	34.82	34.64
PGK	2.4497	2.4208
SEK	6.0366	6.0060
SGD	0.9408	0.9348
CNY	4.4944	4.4671
THB	22.87	22.98
TOP	1.5551	1.5495
VUV	77.92	77.77
WST	1.7895	1.7852
XPF	70.40	69.92
ZAR	10.4065	10.4248



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.39	-0.04
3 Months	-3.78	-3.22
6 Months	-13.97	-12.97
9 Months	-28.75	-26.75
1 Year	-47.77	-45.76

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-1.90	-1.23
3 Months	-9.25	-8.13
6 Months	-28.80	-26.63
9 Months	-52.36	-48.19
1 Year	-80.49	-75.65

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