

26 August 2021



## Events Round-Up

NZ: Trade balance (\$m), yr to Jul: -1104 vs. prev. -277

GE: IFO expectations, Aug: 97.5 vs. 100.0 exp.

US: Durable goods orders (m/m%), Jul: -0.1 vs. -0.3 exp.

US: Durables ex trans. (m/m%), Jul: 0.7 vs. 0.5 exp.

## Good Morning

It has been a sleepy day in financial markets with thin trading volumes but overall a continuation of the risk-on theme that investors have embraced so far this week. US equities have pushed up to yet another record high, commodity currencies (excluding CAD) have modestly outperformed, while global rates are higher.

There has been little news to drive markets but there is heightened anticipation of what Fed Chair Powell might say at the Jackson Hole symposium at the end of the week. US rates are higher across the curve and show a steepening bias, with the 2-year rate up 2bps and the 10-year rate up 5bps to 1.34%, extending the moderate sell-off in Treasuries seen in the previous session. The sell-off hasn't been confined to the Treasuries market, with rates higher across Europe as well, including a 6bps lift in Germany's 10-year rate and a 9bps lift for Italy.

So some apparent nerves for bond investors ahead of Jackson Hole evident, but the backdrop of higher risk appetite this week won't be helping either. The S&P500 is currently up 0.3%, rising to a new record high, a milestone that has become a regular occurrence. Again, the rally has been led by the cyclical sectors, consistent with the view that investors are seemingly less concerned about the economic outlook this week.

Economic data released showed US durable goods orders for July close to expectations, with the headline figure dragged down by lower Boeing aircraft orders, but ex transport figures and core shipments consistent with the solid upward trend in business investment continuing. Germany's IFO survey of businesses showed expectations slipping by more than expected in August, with supply disruptions a feature of the survey as well as concerns about the spread of the delta variant of COVID19 affecting the tourism and hospitality sectors.

Commodity markets have been well supported this week and that theme continued overnight albeit gains were

more moderate, even if broadly based. Brent crude is up almost 2%, surpassing USD72 per barrel, up over 10% from the USD65 level traded at the end of last week.

Commodity currencies have been well supported, apart from CAD which is slightly weaker, with USD/CAD up slightly for the day to 1.26. On the election campaign trail, Prime Minister Trudeau has promised to hike taxes on big banks and insurance companies and implement a two-year ban on foreign home buyers if re-elected. If that's the best he's got, I'd be inclined to sell CAD as well.

NOK, NZD and AUD head the overnight leaderboard, with the NZD up almost 0.5% from the local close to 0.6975. Your scribe was probably within half a cent of getting fired last week, but I'm happy to report that the rally in the NZD this week of about 2% is significant progress towards unwinding last week's hefty fall. The AUD has traded up to 0.7275, with NZD/AUD hanging in there just under the 0.96 mark at 0.9585. NZD crosses have all pushed a little higher, with NZD/JPY the biggest mover up to 76.7, supported by the higher risk appetite backdrop. EUR and GBP have made small gains on a day where the USD is on the back foot.

The domestic rates market had a wild ride yesterday. The short end opened with rates significantly higher, as some offshore folk finally got the memo that the RBNZ means business on tighter monetary after Bloomberg published an interview with Assistant Governor Hawkesby. Why they ignored the first nine post-MPS interviews and took notice of the tenth is a mystery, but 2-year swap traded some 8bps higher at 1.30 early in the session, before closing up 5bps for the day at 1.26%. The OIS market priced the August meeting up 7bps to 0.47%, so now almost fully pricing in a 25bps move and with November up at 0.70%, just 5bps shy of fully pricing in two 25bps hikes for the remaining two meetings of the year. All this seemed to affect the long end of the swap market as well, with the 10-year rate up at 1.98% early on, before closing up just 1bp at 1.91%.

The long-end of the NZGB curve was heavy after NZDM announced that it expected to launch a new 30-year bond sometime in September. Some pre-positioning ahead of that saw the very long end of the curve up 4-5bps, while the 10-year rate rose by only 2bps to 1.65%. Short-end NZGBs were impacted by expectations of tighter monetary policy, with the 2-year rate up 5bps.

There isn't much on the economic calendar for the day ahead to rock the market.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	Private capex	Q2	2.6	6.3	13:30
GE	GfK consumer confidence	Sep	-0.5	-0.3	18:00
US	Initial jobless claims (k)	21-Aug	350	348	00:30
US	GDP (2nd est. ann'lisd q/q)	Q2	6.7	6.5	00:30

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	0.6976	+0.4	0.6937	0.6980	CHF	0.9135	+0.1		S&P 500	4,498	+0.3	30.6	Oil (Brent)	72.29	+1.7
AUD	0.7278	+0.3	0.7238	0.7280	SEK	8.681	-0.1		Dow	35,434	+0.2	25.4	Oil (WTI)	68.39	+1.2
EUR	1.1771	+0.1	1.1726	1.1774	NOK	8.794	-0.4		Nasdaq	15,051	+0.2	31.3	Gold	1788.2	-1.0
GBP	1.3761	+0.2	1.3697	1.3767	HKD	7.784	-0.0		Stoxx 50	4,181	+0.1	25.6	HRC steel	1935.0	+0.3
JPY	110.00	+0.3	109.72	110.12	CNY	6.476	+0.1		FTSE	7,150	+0.3	18.4	CRB	216.7	+0.8
CAD	1.2599	+0.1			SGD	1.353	-0.1		DAX	15,861	-0.3	21.4	Wheat Chic.	726.8	-0.8
NZD/AUD	0.9585	+0.0			IDR	14,398	+0.0		CAC 40	6,676	+0.9	33.3	Sugar	19.73	+0.8
NZD/EUR	0.5926	+0.2			THB	32.79	-0.3		Nikkei	27,725	-0.0	19.0	Cotton	95.95	+0.5
NZD/GBP	0.5069	+0.1			KRW	1,168	+0.1		Shanghai	3,540	+0.7	6.3	Coffee	186.4	+0.2
NZD/JPY	76.74	+0.6			TWD	27.92	-0.1		ASX 200	7,532	+0.4	23.1	WM powder	3540.0	-0.1
NZD/CAD	0.8789	+0.4			PHP	49.86	-0.5		NZX 50	13,173	+0.8	9.5	<b>Australian Futures</b>		
NZ TWI	74.31	+0.3											3 year bond	99.72	-0.02
													10 year bond	98.83	-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	Last	Last	Last			
USD	0.25	0.12	0.32	1.35	USD	1.34	0.05	NZGB 5 1/2 04/15/23	0.91	0.05	1 year	0.94	0.08
AUD	0.10	0.01	0.23	1.33	AUD	1.16	0.01	NZGB 2 3/4 04/15/25	1.20	0.03	2 year	1.26	0.05
NZD	0.25	0.46	1.27	1.93	NZD	1.65	0.02	NZGB 4 1/2 04/15/27	1.37	0.02	5 year	1.61	0.02
EUR	0.00	0.06	-0.49	-0.06	GER	-0.42	0.06	NZGB 3 04/20/29	1.54	0.02	7 year	1.74	0.01
GBP	0.10	0.07	0.48	0.88	GBP	0.60	0.06	NZGB 1 1/2 05/15/31	1.65	0.02	10 year	1.91	0.01
JPY	-0.05	-0.10	-0.02	0.05	JPY	0.02	0.01	NZGB 2 3/4 04/15/37	2.13	0.04	15 year	2.14	0.02
CAD	0.25	0.44	0.82	1.71	CAD	1.24	0.05	NZGB 1 3/4 05/15/41	2.41	0.05			

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

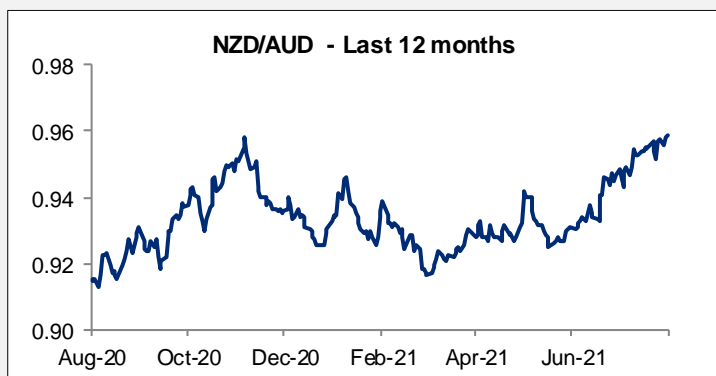
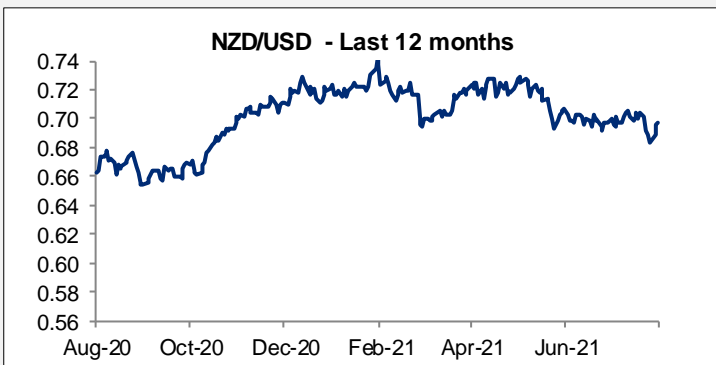
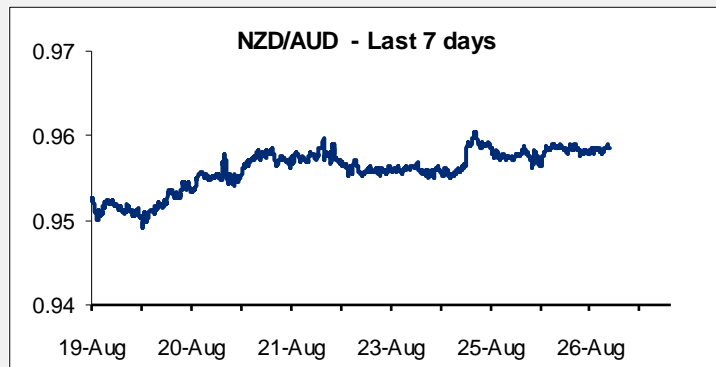
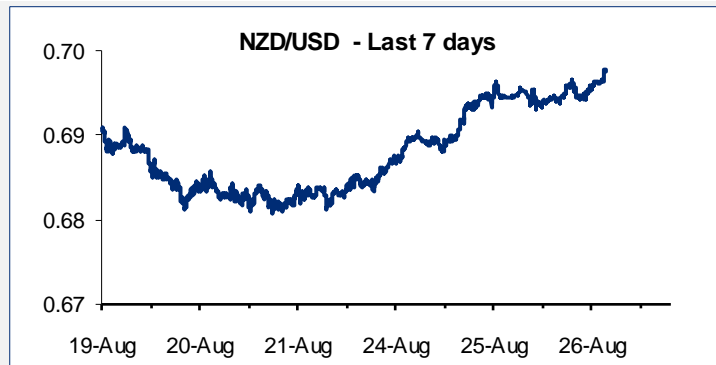
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

**NZD exchange rates**

26/08/2021 6:57 am		Prev. NY close
USD	0.6976	0.6952
GBP	0.5069	0.5064
AUD	0.9585	0.9578
EUR	0.5926	0.5914
JPY	76.74	76.23
CAD	0.8789	0.8752
CHF	0.6373	0.6344
DKK	4.4072	4.3980
FJD	1.4655	1.4617
HKD	5.4301	5.4139
INR	51.79	51.58
NOK	6.1348	6.1406
PKR	115.10	114.09
PHP	34.80	34.85
PGK	2.4477	2.4522
SEK	6.0555	6.0434
SGD	0.9439	0.9415
CNY	4.5174	4.4989
THB	22.82	22.89
TOP	1.5578	1.5567
VUV	78.09	77.89
WST	1.7790	1.7897
XPF	70.50	70.39
ZAR	10.4340	10.4283



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.20	0.10
3 Months	-3.40	-2.88
6 Months	-13.10	-12.10
9 Months	-28.31	-26.31
1 Year	-48.09	-46.09

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-1.67	-1.02
3 Months	-8.95	-7.82
6 Months	-27.78	-25.69
9 Months	-51.47	-47.41
1 Year	-80.43	-75.68

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