

26 July 2021



Events Round-Up

UK: Retail sales ex auto fuel (m/m%), Jun: 0.3 vs. 0.1 exp.

GE: Markit manufacturing PMI, Jul: 65.1 vs. 64.1 exp.

GE: Markit services PMI, Jul: 62.2 vs. 59.5 exp.

EZ: Markit manufacturing PMI, Jul: 62.6 vs. 62.5 exp.

EZ: Markit services PMI, Jul: 60.4 vs. 59.3 exp.

UK: Markit PMI manufacturing, Jul: 60.4 vs. 62.4 exp.

UK: Markit services PMI, Jul: 57.8 vs. 62.0 exp.

CA: Retail sales ex auto (m/m%), May: -2 vs. -1.5 exp.

US: Markit manufacturing PMI, Jul: 63.1 vs. 62.0 exp.

US: Markit services PMI, Jul: 59.8 vs. 64.5 exp.

Good Morning

Markets ended what was a turbulent week on a positive note on Friday, with the S&P500 pushing up to a record high amidst positive corporate earnings. The US 10-year rate tracked sideways, ending the week just below 1.30%, and currency moves were also minimal. The week ahead includes the July FOMC meeting, the first estimate of US Q2 GDP and Australian CPI.

Having been away for a week and checking market prices over the weekend, it would appear like not much had changed. Equity markets are at record highs, bond yields are still stuck at low levels, and changes on the week in currencies were minimal. Of course, a closer look reveals substantial intraweek volatility, with sharp falls in equities and bond yields at the start of last week, amidst fears that the delta variant could impede the global recovery, and then an equally sharp recovery later in the week, with these concerns evidently receding.

On Friday, attention returned to positive corporate earnings, helping to support risk appetite and equity markets. Both Twitter and Snap posted better than expected earnings on Friday morning, lifting sentiment towards the broader tech sector ahead of earnings reports from a number of the heavyweights this week, including Facebook, Alphabet, Apple, Microsoft and Amazon. Around a quarter of S&P500 companies have now reported earnings, with 88% beating analyst expectations. If this were to be maintained through the remainder of the earnings season, it would mark the largest proportion of positive earnings surprises since 2008.

The S&P500, NASDAQ and EuroStoxx 600 were all up just over 1% on Friday, bringing their gains on the week to 2%, 2.8% and 1.5% respectively. All three indexes closed at record highs. Trading activity was light, with the S&P500 recording its second lowest trading volumes of the year.

Economic data on Friday was also generally strong. The Eurozone Composite PMI reached its highest level since 2000, at 60.6, implying a strengthening in growth momentum heading into Q3. The services index rose to a 15-year high, more than offsetting a small decline in the manufacturing survey. In contrast, both the services and manufacturing PMIs slipped in the UK (albeit to what are still very strong levels on a historical basis) amidst broad-based supply constraints and widespread worker absences, with thousands needing to self-isolate. The US PMIs, which usually garner less market attention than the ISM surveys, were mixed. The manufacturing index reached an all-time high while the services index was weaker than expected although, like the UK, it remains very elevated on a historical basis. While the PMIs provided a generally upbeat view of near-term growth, IHS Markit cautioned that there were signs the spread of the delta variant was starting to dampen business expectations for the year ahead in all three regions.

Supply chain issues, difficulty finding labour and acute pricing pressures were features in all the PMIs. The European PMI revealed near-record high selling prices while US selling prices remained extremely high, albeit lower than two months ago. On the issue of supply-chain disruptions, Intel's CEO mentioned on Friday that the global semiconductor shortage, which has been hampering car production and leading to sharp increases in the prices of new and second-hand cars, could stretch into 2023. This contrasts with the more optimistic take from TSMC, the world's largest contract chip maker, which said last week it expected semiconductor shortages in the auto industry to ease in the next few months.

Global rates were little moved on Friday, despite the bounce in equity markets. The US 10-year rate ended the week at 1.28%, unchanged on the day and little different from a week ago. Rates were generally lower outside the US last week, albeit with little movement on Friday. Last week saw the German 10-year yield fall 7bps, to -0.42%, the Australian 10-year yield 9bps, to 1.20%, and the NZ 10-year yield 10bps, to 1.64%, despite the RBNZ's QE bond buying ending on Wednesday. Extremely low long-term bond yields in developed market countries are consistent

with a very pessimistic view of the medium-to-long term growth outlook, although it's likely that ongoing bond buying by major central banks is distorting the underlying macro signals from the bond market, at least to some extent.

FX moves were minimal on Friday, with all currencies except the JPY moving less than 0.2%. The Bloomberg USD index (BBDXY) was up 0.1% on Friday and 0.25% on the week; it continues to hover near its highest level since early April. On the week, the AUD was the worst performer, down 0.5% to around 0.7365, amidst the ongoing lockdowns in Greater Sydney, Victoria and South Australia. The JPY was close behind last week, down 0.4%, reflecting more positive risk appetite and higher equity markets. The NZD ended last week around 0.6975, little changed on Friday but down 0.35% on the week.

We made some modest NZD forecast changes on Friday, mainly reflecting the stronger starting point for the USD. Our end-Q3 NZD target is reduced from 0.75 to 0.72, which assumes Covid concerns fade before the end of the current quarter, while our end-Q4 target is reduced by just one cent, to 0.75. Underlying this revised projection remains an optimistic view that the spread of the virus is brought under control and there is no major outbreak in NZ. We have nudged up our NZD/AUD forecasts to take account of the widening in NZ-Australian rate spreads and now see

the cross centred around 0.95-0.96 for the next few quarters.

The centrepiece for the week ahead is Thursday morning's FOMC meeting, with the market on alert for when the Fed will signal and start tapering of asset purchases. The first estimate of US Q2 GDP comes on Thursday, with the quarterly annualised growth rate expected to accelerate from 6.4% to 8.5%. There is also the possibility that the \$1tn bipartisan US infrastructure bill is passed this week. In Australia, annual headline CPI is expected to jump to 3.7% y/y (0.7% q/q), mainly due to base effects from the depressed levels of Q2 2020, while the RBA's preferred trimmed mean measure of core inflation is expected to remain depressed, at just 1.5% y/y. In New Zealand, the ANZ business survey for July is released on Thursday.

nick.smyth@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ Trade balance (\$b)	Jun		469	10:45
GE IFO expectations	Jul		104.0	20:00
GE IFO business climate	Jul	102.0	101.8	20:00

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	0.6974	+0.1	0.6961	0.6992	CHF	0.9194	+0.0	S&P 500	4,412	+1.0	36.3		Oil (Brent)	74.10	+0.4
AUD	0.7366	-0.2	0.7357	0.7388	SEK	8.689	+0.1	Dow	35,062	+0.7	31.6		Oil (WTI)	72.07	+0.2
EUR	1.1771	+0.0	1.1755	1.1786	NOK	8.868	+0.2	Nasdaq	14,837	+1.0	41.8		Gold	1801.8	-0.2
GBP	1.3748	-0.1	1.3720	1.3773	HKD	7.770	-0.0	Stoxx 50	4,109	+1.2	24.1		HRC steel	1780.0	+0.0
JPY	110.55	+0.4	110.28	110.59	CNY	6.481	+0.2	FTSE	7,028	+0.9	14.8		CRB	216.6	+0.1
CAD	1.2564	+0.0			SGD	1.361	+0.1	DAX	15,669	+1.0	22.1		Wheat Chic.	693.5	-1.1
NZD/AUD	0.9468	+0.2			IDR	14,493	+0.1	CAC 40	6,569	+0.8	32.5		Sugar	18.17	+3.1
NZD/EUR	0.5925	+0.0			THB	32.94	+0.1	Nikkei	27,548	+0.6	21.1		Cotton	90.32	+0.1
NZD/GBP	0.5073	+0.2			KRW	1,151	+0.0	Shanghai	3,550	-0.7	11.1		Coffee	189.0	-2.4
NZD/JPY	77.10	+0.4			TWD	28.05	+0.1	ASX 200	7,394	+0.1	22.7		WM powder	3695.0	+0.5
NZD/CAD	0.8762	+0.0			PHP	50.33	+0.4	NZX 50	12,736	+0.1	9.5		Australian Futures		
NZ TWI	74.29	+0.2											3 year bond	99.685	-0.02
													10 year bond	98.81	0.02
Interest Rates								NZ Government Bonds				NZ Swap Yields			
Rates		Swap Yields		Benchmark 10 Yr Bonds				Last				Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	0.25	0.13	0.28	1.28	USD	1.28	-0.00	NZGB 5 1/2 04/15/23	0.74	-0.01		1 year	0.84	0.03	
AUD	0.10	0.03	0.22	1.32	AUD	1.20	0.00	NZGB 2 3/4 04/15/25	1.02	0.00		2 year	1.05	0.02	
NZD	0.25	0.46	1.05	1.79	NZD	1.51	-0.01	NZGB 4 1/2 04/15/27	1.20	-0.01		5 year	1.44	0.01	
EUR	0.00	0.06	-0.49	-0.05	GER	-0.42	0.01	NZGB 3 04/20/29	1.40	-0.01		7 year	1.61	0.01	
GBP	0.10	0.07	0.43	0.84	GBP	0.58	0.02	NZGB 1 1/2 05/15/31	1.51	-0.01		10 year	1.79	0.01	
JPY	-0.05	-0.08	-0.03	0.04	JPY	0.02	0.00	NZGB 2 3/4 04/15/37	1.99	-0.03		15 year	2.00	0.01	
CAD	0.25	0.44	0.77	1.66	CAD	1.21	0.01	NZGB 1 3/4 05/15/41	2.28	-0.02					

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

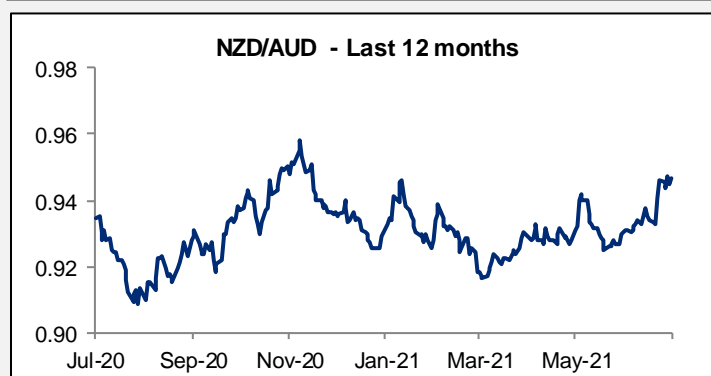
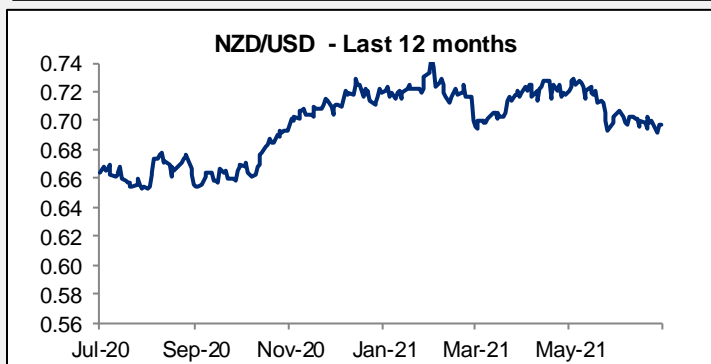
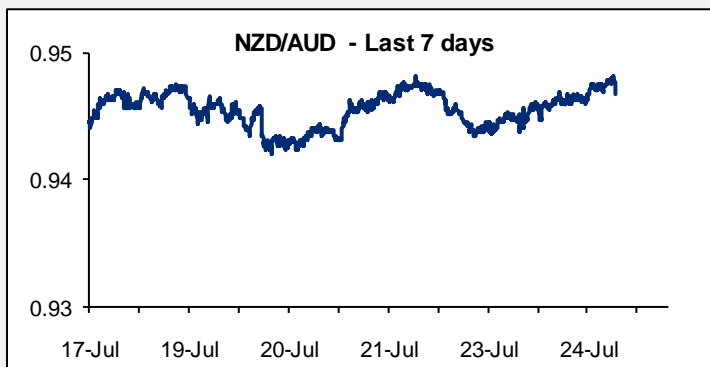
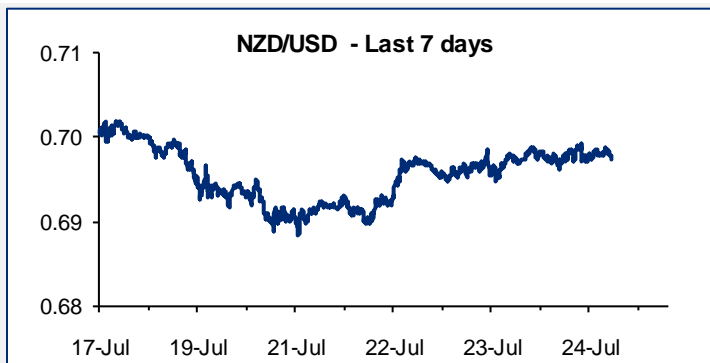
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New York close

Source: Bloomberg

NZD exchange rates

24/07/2021	NY close	Prev. NY close
USD	0.6974	0.697
GBP	0.5073	0.5062
AUD	0.9468	0.9446
EUR	0.5925	0.5921
JPY	77.10	76.77
CAD	0.8762	0.8756
CHF	0.6412	0.6405
DKK	4.4058	4.4042
FJD	1.4541	1.4530
HKD	5.4188	5.4162
INR	51.89	51.90
NOK	6.1848	6.1694
PKR	112.96	112.09
PHP	35.10	34.95
PGK	2.4453	2.4456
SEK	6.0598	6.0505
SGD	0.9490	0.9479
CNY	4.5201	4.5101
THB	22.95	22.91
TOP	1.5522	1.5516
VUV	77.44	77.33
WST	1.7900	1.7830
XPF	70.24	70.13
ZAR	10.3566	10.2410



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.64	-0.37
3 Months	-4.23	-3.77
6 Months	-13.34	-12.34
9 Months	-26.20	-24.22
1 Year	-41.22	-39.22

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.17	-1.58
3 Months	-9.78	-8.62
6 Months	-26.65	-24.36
9 Months	-45.43	-41.29
1 Year	-66.02	-61.15

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

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