

27 August 2021



Events Round-Up

AU: Private capex (q/q%), Q2: 4.4 vs. 2.6 exp.

GE: GfK consumer confidence, Sep: -1.2 vs. -0.5 exp.

US: Initial jobless claims (k), Aug 21st: 353 vs. 350 exp.

US: GDP (2nd est, ann'lisd q/q%), Q2: 6.6 vs. 6.7 exp.

Good Morning

Markets have traded with a slight risk-off tone overnight. Two suicide blasts around Kabul airport prompted a brief flight to safety, although equity markets are off their intraday lows. The USD has strengthened, taking the NZD back down to 0.6945, while bond yields are little changed.

Market attention is concentrated on Powell's speech on the economic outlook at Jackson Hole tonight. Fed chairs have a track record of foreshadowing major policy announcements at Jackson Hole, and some investors think Powell will provide further clues around the timing of a tapering announcement, which could come as soon as the FOMC meeting next month.

Ahead of Powell's speech on the economic outlook tonight, several known Fed 'hawks' have been making the case for an imminent start to Fed tapering. St Louis Fed President Bullard reiterated that he wanted the tapering process to be completed by the end of Q1 next year, alluding to the possibility the current Delta outbreak in the US could be peaking. Dallas Fed President Kaplan, who sparked a rally in the equity market late last week when he said he was "openminded" about a taper delay, told CNBC that he didn't "see anything at this point" which would cause him to change his call for a September taper announcement. But the market is much more interested on what hints Powell might provide.

Despite the constant headlines, the reality is that an announcement on tapering is highly likely to come before the end of the year, something even the doves on the committee seem to agree on. What will be as much, if not more, important than the start date will be how quickly the Fed decides to taper and whether the Fed attempts to de-link the market's perception that tapering 'starts the clock ticking' on when rate hikes will take place.

The major news overnight has been the two suicide bomb attacks outside Kabul airport, which have killed at least 12 US service personnel and 60 Afghans. Media have said the

bombs were carried out by an affiliate of ISIS. The S&P500 dropped as much as 0.6% overnight as headlines related to the explosions came out, before recovering. The S&P500 is currently down 0.5% on the session, albeit still close to its record highs. Despite the obvious human tragedy, geopolitical events such as these tend to only have short-term impacts on markets.

The USD is broadly stronger overnight amidst more cautious risk appetite and these hawkish comments from Fed officials. The BBDXY USD index is up 0.3%, taking it to within 0.7% of its recent 9-month highs.

The JPY and EUR have seen only small losses overnight while commodity currencies and the GBP have underperformed. The AUD is down 0.5% from this time yesterday, at around 0.7240, while the NZD is 0.4% lower, at 0.6945. The NZD/AUD cross is sitting just below 0.96 and is close to 14-month highs.

Movements in the bond market have been muted ahead of Powell's Jackson Hole speech tonight. The US 10-year rate made a two-week high of 1.37% on the back of St Louis Fed President Bullard's comments around tapering, but it has since slid back to 1.34%, now unchanged on the day. The German 10-year rate edged up 1.5bps to its highest level in a month, a still eye watering low -0.41%. There wasn't any reaction to economic data overnight, with the second estimate of US GDP coming in close to market expectations and US initial jobless claims remaining near post-Covid lows.

There was little movement in NZ rates yesterday, with swap rates out to 5-years rising by less than 1bp and the 10-year swap rate 2bps higher, at 1.93%. The market continues to price a high chance of OCR rate hike at each of the next three meetings (65bps priced in total). Yields at the long end of the government bond curve remain under upward pressure (2041 yield +4bps) as the market prepares for the inaugural 30-year bond syndication next month.

In other news, the WSJ reported that Taiwan Semiconductor Manufacturing (TSMC), the world's largest maker of semiconductors, was planning to increase prices by 10% to 20%. A global shortage in semiconductors has led to higher prices and production disruption for a wide range of electronic and consumer goods, including cars, in turn contributing to higher inflation. The news from TSMC

suggests these supply-driven pressures on inflation are set to persist for some time yet.

On Covid-19, 68 new community cases were reported yesterday, with all of those in Auckland except for two (who were isolating while infectious) in Wellington. The government will provide an update on the alert levels this afternoon, with Auckland certain to remain at Level 4 for some time longer but with some scope for movement elsewhere (particularly the South Island) or an indication of when movement might occur if conditions allow.

There has been no let-up in the current Delta outbreak in NSW, with more than 1,000 new cases reported yesterday, a new record.

All the attention will be on Fed Chair Powell's Jackson Hole address tonight. The final release of the University Michigan consumer confidence survey will also be worth keeping an eye on, even though it will be overshadowed by Powell's speech. Markets reacted negatively to the preliminary survey release which plunged over 13% on apparent concerns around the Delta variant. The core PCE deflator, the Fed's preferred inflation measure, is expected to nudge up to 3.6%, which would be its highest level since the early 1990s.

Domestically, the focus is on Covid-19 case numbers and the government's alert level update this afternoon. The ANZ Roy Morgan report on consumer confidence may give a sense of the initial reaction to the recent lockdown as we suspect that a decent chunk of its responses would have been received post August 17th.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Consumer Confidence (m/m%)	Aug	-0.9	10:00	
AU	Retail Sales (m/m%)	Jul P	-2.5	-1.8	13:30
US	Personal Income (m/m%)	Jul	0.2	0.1	00:30
US	Personal Spending (m/m%)	Jul	0.4	1	00:30
US	Core PCE deflator (y/y%)	Jul	3.6	3.5	00:30
US	Uni. of Mich. Sentiment	Aug F	70.8	70.2	02:00
US	Powell Gives Jackson Hole Speech on Economic Outlook				02:00

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	-0.4	0.6944	0.6977	S&P 500	4,478	-0.4	28.7	Oil (Brent)	71.12	-1.6
AUD	0.7239	-0.5	0.7237	0.7268	Dow	35,247	-0.4	24.4	Oil (WTI)	67.43	-1.4
EUR	1.1754	-0.2	1.1746	1.1779	Nasdaq	14,980	-0.4	28.4	Gold	1792.2	+0.1
GBP	1.3697	-0.5	1.3695	1.3755	Stoxx 50	4,170	-0.3	24.2	HRC steel	1940.0	+0.3
JPY	110.01	+0.0	109.94	110.23	FTSE	7,125	-0.4	17.9	CRB	216.4	-0.2
CAD	1.2685	+0.7			DAX	15,794	-0.4	19.7	Wheat Chic.	740.8	+2.1
NZD/AUD	0.9594	+0.1			CAC 40	6,666	-0.2	32.0	Sugar	19.68	-0.3
NZD/EUR	0.5909	-0.3			Nikkei	27,742	+0.1	19.5	Cotton	95.36	-0.7
NZD/GBP	0.5070	+0.1			Shanghai	3,502	-1.1	4.5	Coffee	188.0	+0.3
NZD/JPY	76.40	-0.4			ASX 200	7,491	-0.5	22.3	WM powder	3540.0	+0.0
NZD/CAD	0.8810	+0.3			NZX 50	13,052	-0.9	8.3	Australian Futures		
NZ TWI	74.13	-0.2							3 year bond	99.715	0.00
									10 year bond	98.82	-0.01

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	0.33	1.35	USD	1.34	0.00	NZGB 5 1/2 04/15/23	0.91	0.00	1 year	0.95	0.01
AUD	0.10	0.01	0.23	1.34	AUD	1.19	0.03	NZGB 2 3/4 04/15/25	1.21	0.01	2 year	1.27	0.01
NZD	0.25	0.45	1.27	1.94	NZD	1.66	0.02	NZGB 4 1/2 04/15/27	1.38	0.01	5 year	1.62	0.01
EUR	0.00	0.06	-0.49	-0.04	GER	-0.41	0.02	NZGB 3 04/20/29	1.55	0.02	7 year	1.75	0.01
GBP	0.10	0.07	0.49	0.89	GBP	0.60	0.00	NZGB 1 1/2 05/15/31	1.66	0.01	10 year	1.93	0.02
JPY	-0.05	-0.10	-0.02	0.05	JPY	0.03	0.00	NZGB 2 3/4 04/15/37	2.17	0.04	15 year	2.18	0.03
CAD	0.25	0.44	0.83	1.71	CAD	1.23	-0.02	NZGB 1 3/4 05/15/41	2.45	0.04			

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

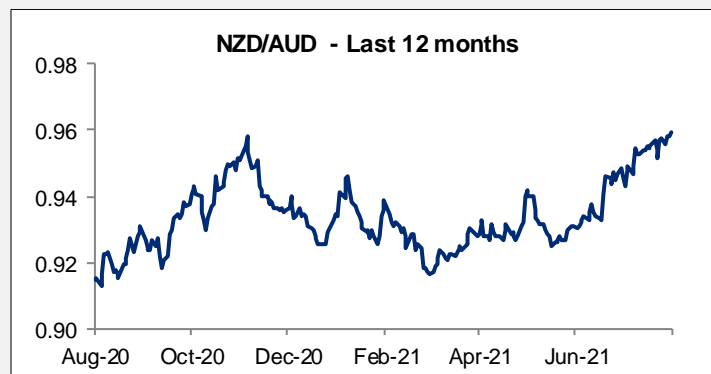
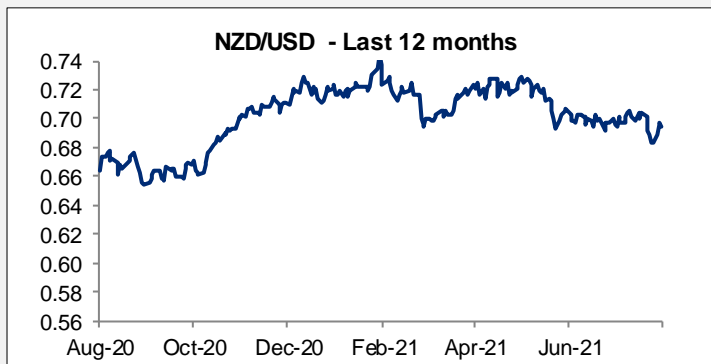
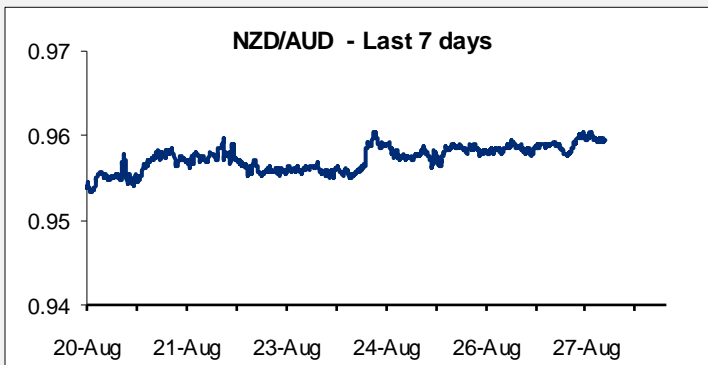
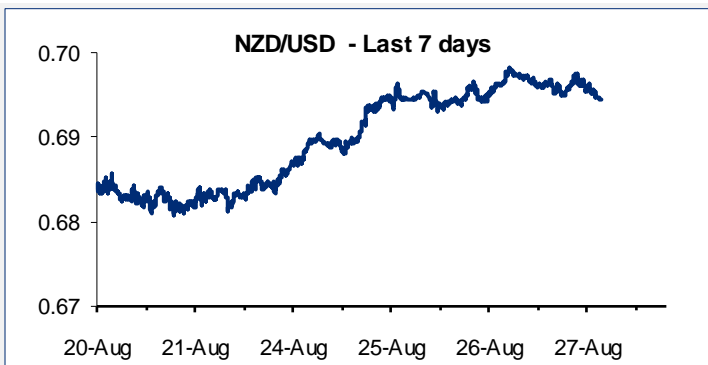
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:50

Source: Bloomberg

NZD exchange rates

27/08/2021	6:50 a.m.	Prev. NY close
USD	0.6945	0.6974
GBP	0.5070	0.5067
AUD	0.9594	0.9585
EUR	0.5909	0.5924
JPY	76.40	76.73
CAD	0.8810	0.8781
CHF	0.6377	0.6374
DKK	4.3938	4.4055
FJD	1.4569	1.4605
HKD	5.4083	5.4284
INR	51.55	51.78
NOK	6.1355	6.1423
PKR	114.59	114.45
PHP	34.71	34.96
PGK	2.4351	2.4470
SEK	6.0469	6.0555
SGD	0.9406	0.9434
CNY	4.5016	4.5162
THB	22.74	22.81
TOP	1.5471	1.5574
VUV	77.67	78.02
WST	1.7806	1.7897
XPF	70.29	70.37
ZAR	10.3704	10.4275



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.17	0.17
3 Months	-3.40	-2.88
6 Months	-13.22	-12.22
9 Months	-29.34	-27.36
1 Year	-48.70	-46.70

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-1.67	-0.99
3 Months	-8.98	-7.85
6 Months	-28.17	-25.91
9 Months	-53.16	-49.09
1 Year	-81.69	-76.95

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