

27 July 2021



## Events Round-Up

NZ: Annual trade balance (\$m), Jun: -252 vs. -41 prev.

GE: IFO expectations, Jul: 101.2 vs. 103.6 exp.

GE: IFO business climate, Jul: 100.8 vs. 102.5 exp.

US: New home sales (k), Jun: 676 vs. 800 exp.

## Good Morning

US and European equity markets show modest changes, trading near their record highs set at the end of last week while global rates are also little changed, although real rates have hit a record low. Currency markets show a bit more price action, with a broadly-based fall in the USD that helped the NZD regain the 0.70 handle overnight.

The week opened with some nerves during the Asian trading session as China continued on a massive regulatory campaign to crack down on technology companies. This policy started last year with the cancellation of Ant Group's IPO and has morphed into a much wider crackdown. Last week China reined in education companies, banning them from making profits. Investors are asking which sectors are next in the firing line and are bailing out of listed Chinese stocks. China's CSI300 index fell over 3% while Hong Kong's Hang Seng index fell by over 4%.

Sentiment wasn't helped by further headlines on tense US-China relations. High level US and China talks at a summit in China were contentious, with the result being two lists of grievances supplied by the Chinese side and a spokesman saying that the relationship was "in a stalemate and faces serious difficulties". So, it seems that nothing has essentially changed since the last fiery meeting held in Alaska in March.

S&P futures were down as much as 0.6% during Asian trading but lifted from the European open and have since pushed higher. Many Chinese-listed stocks in the US have been hammered further, but there is no sign of contagion, with the S&P500 currently up 0.2%, on track to print another fresh record high. The Euro Stoxx 600 index closed down less than 0.1%, still near its record high.

Not unrelated, real yield US and European 10-year rates both fell to record lows, with real US Treasuries taking a peek below minus 1.13% and European swaps hitting minus 1.65%. The move is being put down to illiquid summer trading conditions and ongoing concerns about

the growth outlook, following signs that US growth has passed its peak and as the spread of the delta variant of COVID19 threatens the global economic recovery. Bond markets might have some macro concerns, but equity markets are hardly trading like there's a major growth scare, and low yields simply add to the appeal of equities.

The nominal US 10-year rate has traded a range of 1.22-1.28%, the low being reached at the nadir for S&P futures and rates currently near the higher end of the range on the improvement in risk sentiment, at 1.27%, not far from last week's close.

In economic data, new US home sales fell to their lowest level in over a year, indicative of much weaker demand after significant price rises, given that monthly supply is back to pre-pandemic levels (sales up to 6.3 months of supply versus a low of 3.5 months last year). Weakness in the series has been forewarned by much weaker mortgage applications over the past several months but, as noted by Pantheon Macroeconomics, the consensus was inexplicably picking a lift in sales.

Germany's IFO business climate indicator fell for the first time in six months and off a three-year high, with the "expectations" indicator dropping by more than the lift in "current conditions". The commentary suggested that supply bottlenecks and concerns over newly rising infection numbers were weighing on the German economy.

The NZD has followed the pattern of risk appetite, falling just below 0.6950 near the end of Asian trading, climbing as high as 0.7010 overnight, and currently sitting near 0.70, up 0.3% for the day. After falling to around 0.7330, the AUD made a run for 0.74 but just fell short and currently trades at 0.7380. Higher risk appetite has seen both the USD and JPY on the weak side and EUR and GBP both show gains in the order of 0.3-0.5%, the former back at 1.18 and the latter up through 1.38.

In the domestic rates market, NZGBs continued to outperform, showing that the end of QE has done no harm. Rates were 1-3bps lower across the curve, outperforming the swap market where rates were up 1bp across the curve. The 10-year NZGB closed down 2bps to 1.49% its lowest level since February.

Tonight sees the release of US durables goods orders and consumer confidence data, while RBA Deputy Governor

Debelle gives an online speech to a US audience. Trading conditions are likely to remain uneventful until the FOMC's policy update early Thursday morning NZ time.

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## Coming Up

	Period	Cons.	Prev.	NZT
US Durable goods orders (m/m%)	Jun	2.0	2.3	00:30
US Durables ex transport	Jun	0.8	0.3	00:30
AU RBA's Debelle give online speech to US conference				00:35
US Conf. Board consumer confid.	Jul	124.0	127.3	02:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6994	+0.3	0.6948	0.7010	CHF	0.9158	-0.4	S&P 500	4,418	+0.1	37.4	Oil (Brent)	74.74	+0.9
AUD	0.7379	+0.2	0.7331	0.7391	SEK	8.631	-0.7	Dow	35,124	+0.2	32.7	Oil (WTI)	72.18	+0.1
EUR	1.1802	+0.3	1.1767	1.1817	NOK	8.833	-0.4	Nasdaq	14,839	+0.0	43.2	Gold	1796.7	-0.3
GBP	1.3815	+0.5	1.3740	1.3833	HKD	7.780	+0.1	Stoxx 50	4,103	-0.2	23.9	HRC steel	1781.0	+0.0
JPY	110.38	-0.2	110.12	110.42	CNY	6.483	+0.0	FTSE	7,025	-0.0	14.7	CRB	219.5	+1.3
CAD	1.2547	-0.1			SGD	1.359	-0.2	DAX	15,619	-0.3	21.7	Wheat Chic.	687.0	-0.9
NZD/AUD	0.9478	+0.1			IDR	14,483	-0.1	CAC 40	6,579	+0.6	32.7	Sugar	18.42	+1.4
NZD/EUR	0.5926	+0.0			THB	32.92	-0.1	Nikkei	27,833	+1.0	22.5	Cotton	90.29	-0.4
NZD/GBP	0.5063	-0.2			KRW	1,155	+0.4	Shanghai	3,467	-2.3	8.2	Coffee	207.8	+9.9
NZD/JPY	77.20	+0.1			TWD	28.07	+0.1	ASX 200	7,394	-0.0	22.3	WM powder	3735.0	+1.1
NZD/CAD	0.8775	+0.1			PHP	50.34	+0.0	NZX 50	12,673	-0.5	9.4	<b>Australian Futures</b>		
NZ TWI	74.35	+0.2										3 year bond	99.695	0.01
												10 year bond	98.79	-0.02
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last			Last			
USD	0.25	0.13	0.28	1.28	USD	1.27	-0.00	NZGB 5 1/2 04/15/23	0.73	-0.01	1 year	0.84	0.01	
AUD	0.10	0.03	0.22	1.32	AUD	1.18	-0.02	NZGB 2 3/4 04/15/25	1.00	-0.02	2 year	1.06	0.01	
NZD	0.25	0.45	1.06	1.80	NZD	1.49	-0.02	NZGB 4 1/2 04/15/27	1.19	-0.01	5 year	1.45	0.01	
EUR	0.00	0.06	-0.49	-0.05	GER	-0.42	0.00	NZGB 3 04/20/29	1.37	-0.02	7 year	1.61	0.01	
GBP	0.10	0.07	0.43	0.83	GBP	0.57	-0.01	NZGB 1 1/2 05/15/31	1.49	-0.02	10 year	1.79	0.01	
JPY	-0.05	-0.08	-0.03	0.04	JPY	0.01	-0.01	NZGB 2 3/4 04/15/37	1.97	-0.03	15 year	2.01	0.01	
CAD	0.25	0.44	0.78	1.66	CAD	1.21	-0.00	NZGB 1 3/4 05/15/41	2.25	-0.02				

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

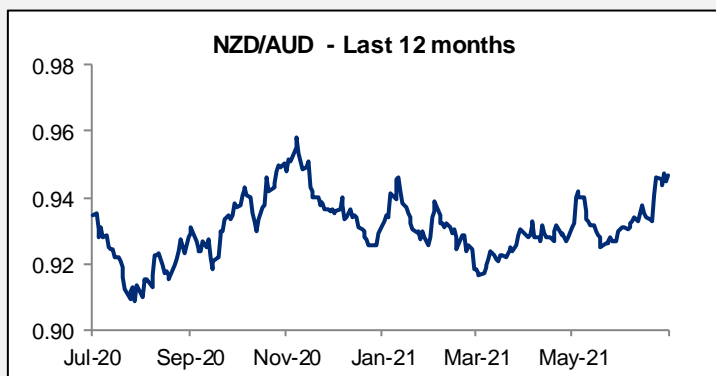
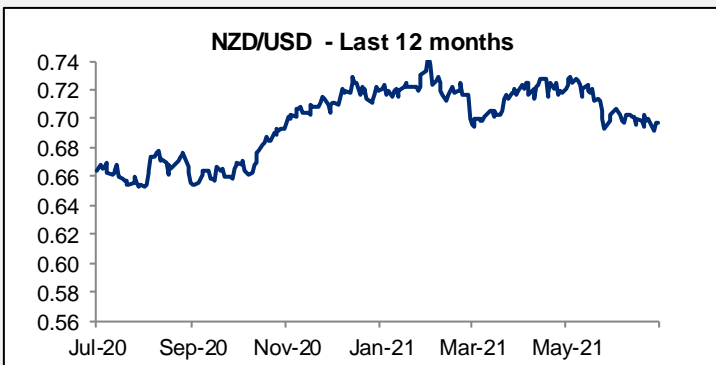
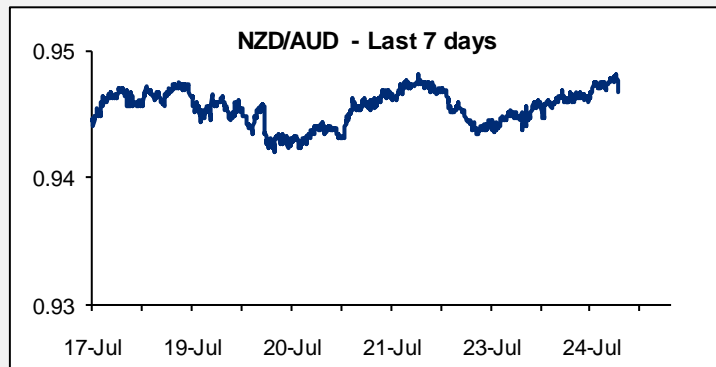
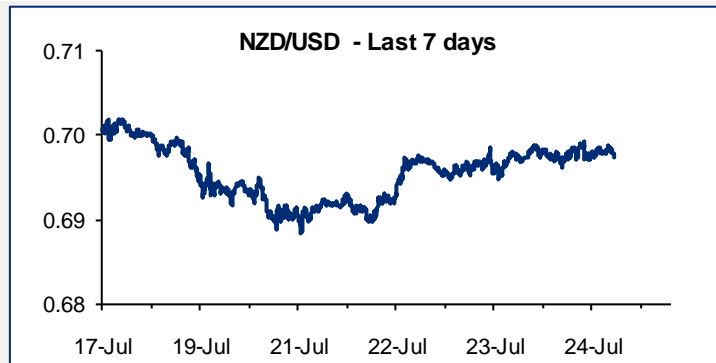
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New Yt 06:58

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

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