

29 July 2021



Events Round-Up

AU: CPI (y/y%), Q2: 3.8 vs. 3.7 exp.

AU: CPI trimmed mean (y/y%), Q2: 1.6 vs. 1.6 exp.

GE: GfK consumer confidence, Aug: -0.3 vs. 1.0 exp.

US: Advance goods trade bal (\$b), Jun: -91.2 vs. -88.0 exp.

CA: CPI (y/y%), Jun: 3.1 vs. 3.2 exp.

CA: CPI core (avg y/y%), Jun: 2.2 vs. 2.3 exp.

US: FOMC rate (upper %), Jul: 0.25 vs. 0.25 exp.

Good Morning

Market reaction has been fairly well contained both ahead and after the Fed's policy update, which showed only a modest tweak to its previous Statement. The S&P500 has hovered in and out of positive territory, US Treasury yields are slightly higher and the USD has weakened a little. The NZD ran down towards 0.69 in the immediate aftermath of the Fed statement, but has fully recovered after some dovish words by Fed chair Powell.

In its latest policy update, the Fed repeated the message that indicators of economic activity and employment had strengthened, inflation had risen, largely reflecting transitory factors, and that the path of the economy will depend of the course of the virus. The only tweak here was the dropping of the word "significantly" before "depend", suggesting less concern about the economic impact of the virus.

The policy outlook message was also tweaked. After repeating its guidance that bond purchases would continue to increase by \$120b per month until substantial further progress has been made towards its maximum employment and price stability goals the addition to the statement was "since then, the economy has made progress towards these goals, and the Committee will continue to assess progress in coming meetings".

The implication is that only progress has been made, not reaching the "substantial progress" threshold for tapering bond purchases and plural for the term "meetings", suggesting that any decision won't necessarily come as soon as the next September meeting, and almost certainly not before the keynote speech by Powell at Jackson hole next month.

The Fed has previously said that it would give the market well-advanced warning ahead of any actual tapering, so the policy guidance does nothing to change market expectations that tapering could occur from late this year or early next year and muted market reaction reflected this. The 10-year Treasury rate has traded a tight range of 1.23-1.27% overnight.

There has been slightly more reaction in the currency market during Fed Chair Powell's press conference which offered some dovish soundbites, including that "we're some ways away from substantial progress on jobs" and that "the Fed is nowhere near considering raising rates". This has resulted in some broadly based USD weakness, seeing the NZD recover after a run down to near-0.6900 and now back to 0.6950, so little net change from the NZ close.

Relative to the NZ close, on the crosses, the NZD is down on all key majors for no obvious reason, apart from a small gain for NZD/JPY. NZD/GBP has traded below 0.50 for the first time since August. NZD/EUR is down at 0.5870 and NZD/AUD has pushed down to 0.9430.

The S&P500 currently shows a small gain. After the bell yesterday, Apple, Microsoft and Alphabet all beat market expectations on earnings. Apple's stock price is the only one lower today (down 1%) despite smashing expectations, as the company was cautious about the outlook, warning of the potential of slower sales growth and tight supplies. Boeing has been the biggest mover for the Dow Jones index, up nearly 5% as its earnings report showed a positive turnaround after its recent very poor run.

In other news, the rout in Chinese listed stocks paused for a day as China's securities regulator attempted to calm markets. Bloomberg reports that investors who logged into a hastily arranged conference call said that the crackdown on the private education industry was targeted and not intended to hurt companies in other industries. State media has published reports designed to help support the market, such as the China Securities Journal, which reported that investors shouldn't be overly pessimistic about the stock market and there won't be systemic risks.

The bipartisan group of 10 Senators has reached agreement on an infrastructure package which should be released later today and could be voted on soon. Details have yet to be released but the package is expected to involve new spending of just under \$600b, fully funded

through revenue increases, and spread over many years, which reduces its impulse to the economy.

In economic news, the US trade deficit unexpectedly widened to \$91.2b in June, with imports dragged higher by costlier petroleum products. The deficit was the second largest on record. Canada's annual CPI inflation slipped in June to 3.1%, from a decade-high the previous month, and the average of three core measures was a touch softer than expected at 2.2%.

Australia's CPI release was close to market expectations, with annual inflation surging 3.8% y/y although the core figure the RBA focuses on, the trimmed mean, was up just 1.6% y/y. There was no smoking gun in the release to change expectations on the RBA's overtly dovish policy outlook. Earlier, NSW's lockdown was extended for another four weeks on no sign yet that the current lockdown was having any impact on new case numbers or community transmission of COVID19.

Domestic rates showed 2-3bps falls across the NZGB and swap curves, largely influenced by global forces. NZDM released its bond tender schedule which kept the pace of issuance at \$500m-\$550m per week and included the keenly sought 2031 bond which has been squeezed lower in yield of late.

In the day ahead, ANZ releases its business outlook survey, expected to continue to show robust activity indicators and surging inflationary pressure. The key release tonight is Q2 GDP in the US, with most estimates centred around 8-8½% annualised growth for the quarter and annualised core inflation around 6%, no better highlighting the warped logic of the US Fed, which still deems emergency policy settings necessary even with figures like these.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ activity outlook (net%)	Jul		31.6	13:00
NZ	ANZ business confid. (net%)	Jul		-0.6	13:00
GE	Unemployment rate (%)	Jul	5.8	5.9	19:55
EC	Economic confidence	Jul	118.4	117.9	21:00
GE	CPI EU harmonised (y/y%)	Jul	2.9	2.1	00:00
US	Core PCE (q/q% annlsd)	Q2	6.1	2.5	00:30
US	GDP (q/q% annlsd)	Q2	8.5	6.4	00:30
US	Initial jobless claims (k)	24-Jul	385	419	00:30
US	Pending home sales (m/m%)	Jun	0.2	8.0	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	0.6947	-0.1	0.6902	0.6962	CHF	0.9111	-0.4	S&P 500	4,410	+0.2	37.0	Oil (Brent)	74.70	+0.3
AUD	0.7366	+0.1	0.7317	0.7381	SEK	8.603	-0.3	Dow	34,992	-0.2	32.7	Oil (WTI)	72.35	+1.0
EUR	1.1838	+0.2	1.1773	1.1843	NOK	8.814	-0.7	Nasdaq	14,775	+0.8	42.0	Gold	1801.0	+0.1
GBP	1.3905	+0.2	1.3844	1.3911	HKD	7.780	-0.1	Stoxx 50	4,103	+0.9	24.2	HRC steel	1880.0	+0.8
JPY	109.98	+0.2	109.79	110.28	CNY	6.491	-0.3	FTSE	7,017	+0.3	14.5	CRB	219.1	+0.4
CAD	1.2533	-0.5			SGD	1.358	-0.2	DAX	15,570	+0.3	21.3	Wheat Chic.	699.5	+2.2
NZD/AUD	0.9431	-0.2			IDR	14,488	-0.0	CAC 40	6,609	+2.4	34.1	Sugar	18.61	+1.7
NZD/EUR	0.5868	-0.3			THB	32.86	-0.2	Nikkei	27,582	-1.4	23.1	Cotton	90.91	+0.1
NZD/GBP	0.4996	-0.3			KRW	1,154	+0.4	Shanghai	3,362	-0.6	2.0	Coffee	200.5	-0.0
NZD/JPY	76.40	+0.0			TWD	28.01	-0.3	ASX 200	7,379	-0.7	22.9	WM powder	3775.0	+0.5
NZD/CAD	0.8707	-0.7			PHP	50.39	-0.0	NZX 50	12,595	+0.0	8.6			
NZ TWI	73.82	-0.2												

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	Net Day	Last	Net Day	Last	Net Day	
USD	0.25	0.13	0.29	1.28	USD	1.26	0.02	NZGB 5 1/2 04/15/23	0.72	-0.02	1 year	0.83	-0.01
AUD	0.10	0.02	0.20	1.29	AUD	1.15	-0.06	NZGB 2 3/4 04/15/25	1.00	-0.02	2 year	1.04	-0.02
NZD	0.25	0.47	1.04	1.78	NZD	1.50	-0.02	NZGB 4 1/2 04/15/27	1.18	-0.02	5 year	1.43	-0.02
EUR	0.00	0.06	-0.49	-0.06	GER	-0.45	-0.01	NZGB 3 04/20/29	1.38	-0.02	7 year	1.60	-0.02
GBP	0.10	0.07	0.44	0.85	GBP	0.58	0.02	NZGB 1 1/2 05/15/31	1.50	-0.02	10 year	1.78	-0.03
JPY	-0.05	-0.10	-0.03	0.04	JPY	0.02	0.00	NZGB 2 3/4 04/15/37	1.97	-0.03	15 year	1.99	-0.03
CAD	0.25	0.44	0.79	1.65	CAD	1.19	0.02	NZGB 1 3/4 05/15/41	2.25	-0.03			

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

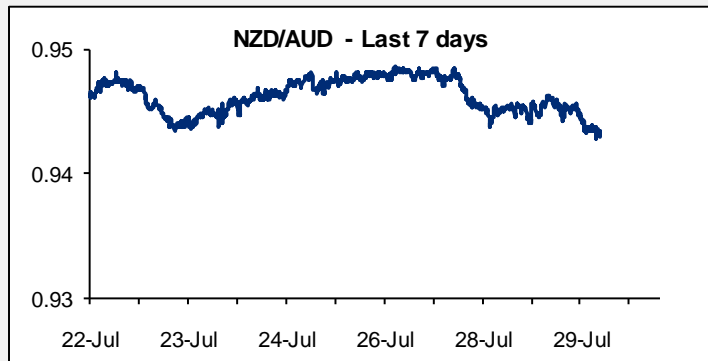
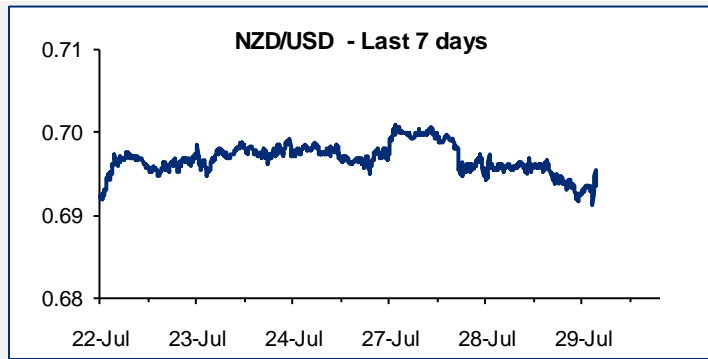
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New York 07:09

Source: Bloomberg

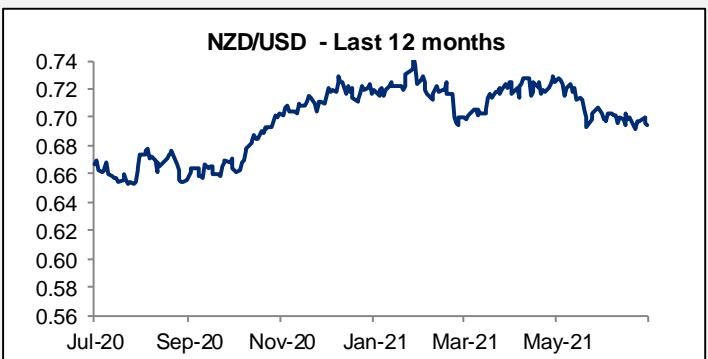
NZD exchange rates

29/07/2021 7:09 am		Prev. NY close
USD	0.6947	0.6956
GBP	0.4996	0.5012
AUD	0.9431	0.9449
EUR	0.5868	0.5886
JPY	76.40	76.36
CAD	0.8707	0.8766
CHF	0.6329	0.6361
DKK	4.3649	4.3784
FJD	1.4500	1.4492
HKD	5.4048	5.4156
INR	51.67	51.80
NOK	6.1232	6.1766
PKR	111.83	111.97
PHP	35.01	35.07
PGK	2.4375	2.4519
SEK	5.9762	6.0038
SGD	0.9431	0.9463
CNY	4.5092	4.5292
THB	22.90	22.89
TOP	1.5517	1.5544
VUV	77.02	76.98
WST	1.7783	1.7887
XPF	69.82	70.11
ZAR	10.2554	10.2870



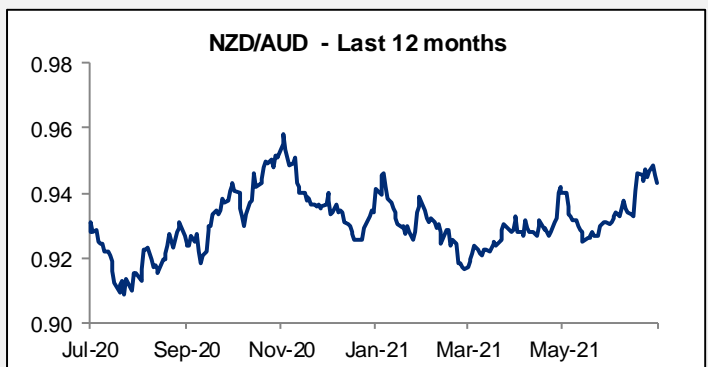
NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.44	-0.16
3 Months	-3.69	-3.19
6 Months	-11.88	-10.88
9 Months	-24.25	-22.30
1 Year	-38.69	-36.69



NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.07	-1.42
3 Months	-9.11	-7.91
6 Months	-24.60	-22.46
9 Months	-43.01	-39.05
1 Year	-63.15	-58.49



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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