

30 August 2021



## Events Round-Up

NZ: ANZ consumer confidence, Aug: 109.6 vs. 113.1 prev.

AU: Retail sales (m/m%), Jul: -2.7 vs. -2.5 exp.

US: Personal income (m/m%), Jul: 1.1 vs. 0.3 exp.

US: Personal spending (m/m%), Jul: 0.3 vs. 0.4 exp.

US: Core PCE deflator (y/y%), Jul: 3.6 vs. 3.6 exp.

US: Uni. Michigan consumer sentiment, Aug (final): 70.3 vs. 70.8 exp.

## Good Morning

Markets reacted positively to Fed Chair Powell's Jackson Hole speech, with the S&P500 hitting a new record, while the USD and US 10-year rate fell. Commodity currencies outperformed, with the NZD and AUD both up around 1%, the NZD ending the week back above the 0.70 mark.

In his eagerly awaited Jackson Hole speech on the economic outlook, Powell confirmed that inflation had met the Fed's "substantial further progress" criterion for tapering while saying there had been "clear progress" on the employment side of the Fed's mandate. Powell said his view was for tapering to start later this year, assuming the economy continued to evolve as expected, although he didn't specify exactly when. That leaves open the door for a tapering announcement at the Fed meeting next month, if Friday's nonfarm payrolls report is a very strong one, although some expect the Fed to wait until November.

The other key aspect of the speech was Powell's attempt to delink the market's perception that tapering 'starts the clock ticking' on rate hikes, which was one of the reasons for the 'taper tantrum' in 2013. Powell stressed that the criteria for rate hikes represented a "substantially more stringent test", adding that tapering was not intended to provide a "direct signal regarding the timing of interest rate liftoff." Markets responded by reducing Fed rate hike expectations for late-2022 and 2023 by around 3bps. The first Fed hike is now fully priced by around March 2023.

Powell reiterated the Fed's view that current inflationary pressures are mainly transitory. He pointed to high inflation being narrowly confined to some specific sectors, such as car prices, which should see prices moderate in time as supply catches up, that there was little evidence of inflation pressures feeding through into wages at this stage, inflation expectations were anchored and global

disinflationary forces weren't going away anytime soon. Reacting to temporary inflation pressures "may do more harm than good", given the monetary policy typically works with a lag of 12 months or more, by which time these temporary factors may have faded. So, no signs of the Fed flinching even with inflation at multi-decade highs.

Whether or not Powell is right that inflation is not a concern remains to be seen, but it is likely to be well into next year before this debate is settled. Former US Treasury Secretary Larry Summers, for one, was less sanguine, calling the Fed's ongoing QE "bizarre", adding that NAIRU was likely significantly higher than it was pre-Covid due to the structural changes in the economy, meaning that if the Fed aims to achieve those prior levels of employment it would likely be at the cost of uncomfortably high inflation. Summers sees the Fed as at risk of "making a bit of a paradigm error".

Either way, the dovish overtones to the speech and Powell's attempt to delink tapering from interest rate hikes were taken positively by the equity market, with the S&P500 rising 0.9%, to a fresh record high, led by the cyclical sectors. It's also possible the market was pricing a chance Powell would explicitly foreshadow a September tapering announcement – fears that weren't realised. Commodity prices were stronger across the board, with Brent crude oil futures up 2.2%, to be 12% higher on the week, and copper gaining 1.2%, signs that the market is becoming more positive around the global growth outlook.

In the bond market, both 3-year and 10-year US Treasury rates were down 4bps on the session, to 0.42% and 1.31% respectively, as Powell's message around delinking rate hikes from tapering filtered along the yield curve. The yield on the 10-year Australian bond future closed 3bps lower than the time of the NZ market close, which will set the tone for the local market this morning.

In currencies, the USD was weaker across the board. The BBDXY USD index was down 0.5% on the day and 0.9% over the course of the week, an almost complete reversal of its appreciation the week prior. Commodity currencies were the clear outperformers, with the NOK heading the currency leader board with a gain of 1.5% while the AUD and NZD were both up around 1%. The NZD, which was testing 0.68 only a week ago, closed Friday back above the 0.70 mark. It is now essentially back to where it was before the shock news of a community Covid-19 case on

August 17<sup>th</sup>. This just goes to show that global factors remain far more influential on the NZD than local ones.

Economic data was a sideshow given Powell's speech and had little market impact. For the record, US personal spending was slightly weaker than expected in July (+0.3% m/m) and, given the Delta variant outbreak, consumption is likely to be much weaker in Q3 than the stimulus-fuelled surge in Q2. The final release of the University of Michigan consumer confidence index was confirmed at 70.3, a more than 13% fall from July's level, suggesting some increased caution amongst households. The fundamentals for the US consumer still look strong though, with US household savings extremely high and the labour market strengthening. The US core PCE deflator, the Fed's preferred inflation gauge, nudged up to 3.6% y/y, as expected, its highest level since the early 1990s. Year-on-year inflation is expected to remain extremely elevated for a few months yet before starting to ease back.

Turning to local developments, economic data has started to filter through capturing some of the early impacts of the lockdown. People receiving Job Seeker benefit support increased by 2,022 people last week, a relatively small rise compared to last year's Level 4 lockdown but worth keeping an eye on. Our thinking is that the job losses will likely be much less than the original Level 4 lockdown with firms likely to be reluctant to let go of staff given their extreme difficulties finding labour in recent times. Compared to Level 4 last year, the vaccine rollout also provides some light at the end of the tunnel. The ANZ consumer confidence index dipped to 110 in August (from 113) although ANZ said it was unlikely more than 15% of responses came after the lockdown announcement.

NZ swap rates were 2-3bps higher on Friday while government bond yields lifted 4-6bps. The 2-year swap rate increased 13bps last week, to 1.29%, as the market

took on board hawkish comments from RBNZ officials that they are clearly minded to start increasing the OCR in the coming months. Separately, New Zealand Debt Management announced that its inaugural 30-year government bond syndication was planned for the week of the 13<sup>th</sup> September with a target size of \$2b-\$3b.

The focus of the week ahead is the nonfarm payrolls report on Friday night, with consensus for 750k job growth and a drop in the unemployment rate from 5.4% to 5.2%. The market will be sensitive to the report given Powell highlighted that a tapering announcement would hinge on labour market developments. The Chinese PMIs will also be a focus for the market this week amidst concerns around slowing Chinese growth. More encouragingly, it looks like the recent Delta variant outbreak in the country is now under control. Finally, OPEC+ meets this week and is expected to agree to raise oil production in October, as previously planned.

Locally, the focus will be on daily Covid-19 numbers, with new cases expected to start plateauing relatively soon. The government will review the Covid alert levels this afternoon, with PM Ardern having foreshadowed Auckland and Northland remaining at Level 4 (Auckland probably for another two weeks) and the rest of the country coming down to Level 3. The local data highlight is the ANZ business survey for August, which is released on Tuesday.

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## Coming Up

		Period	Cons.	Prev.	NZT
GE	CPI (EU Harmonized, y/y%)	Aug P		3.1	00:00
US	Pending Home Sales (m/m%)	Jul	-0.15	-1.9	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	0.7012	+0.9	0.6935	0.7019	CHF	0.9112	-0.7	S&P 500	4,509	+0.9	29.4	Oil (Brent)	72.68	+2.2
AUD	0.7313	+1.0	0.7235	0.7317	SEK	8.640	-0.8	Dow	35,456	+0.7	24.4	Oil (WTI)	68.72	+1.9
EUR	1.1795	+0.4	1.1735	1.1802	NOK	8.715	-1.4	Nasdaq	15,130	+1.2	30.1	Gold	1816.6	+0.6
GBP	1.3764	+0.5	1.3694	1.3781	HKD	7.788	+0.0	Stoxx 50	4,191	+0.5	25.8	HRC steel	1941.0	+0.3
JPY	109.85	-0.2	109.78	110.27	CNY	6.472	-0.2	FTSE	7,148	+0.3	19.1	CRB	219.2	+1.3
CAD	1.2616	-0.5			SGD	1.346	-0.6	DAX	15,852	+0.4	21.0	Wheat Chic.	732.5	-0.9
NZD/AUD	0.9588	-0.1			IDR	14,418	+0.0	CAC 40	6,682	+0.9	33.2	Sugar	20.04	+1.8
NZD/EUR	0.5945	+0.6			THB	32.52	-0.7	Nikkei	27,641	-0.4	20.8	Cotton	96.27	+1.0
NZD/GBP	0.5094	+0.4			KRW	1,169	-0.1	Shanghai	3,522	+0.6	3.5	Coffee	192.2	+1.9
NZD/JPY	77.03	+0.7			TWD	27.94	+0.1	ASX 200	7,488	-0.0	23.3	WM powder	3540.0	+0.0
NZD/CAD	0.8846	+0.4			PHP	49.95	-0.1	NZX 50	13,060	+0.1	8.0	<b>Australian Futures</b>		
NZ TWI	74.58	+0.5										3 year bond	99.715	0.00
												10 year bond	98.84	0.02
Interest Rates					NZ Government Bonds				NZ Swap Yields					
Rates	Swap Yields				Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last				
USD	0.25	0.12	0.31	1.33	USD	1.31	-0.04	NZGB 5 1/2 04/15/23	0.91	0.00	1 year	0.96	0.01	
AUD	0.10	0.01	0.22	1.33	AUD	1.19	0.00	NZGB 2 3/4 04/15/25	1.25	0.04	2 year	1.29	0.02	
NZD	0.25	0.46	1.29	1.95	NZD	1.71	0.05	NZGB 4 1/2 04/15/27	1.43	0.05	5 year	1.64	0.03	
EUR	0.00	0.06	-0.49	-0.06	GER	-0.42	-0.02	NZGB 3 04/20/29	1.60	0.05	7 year	1.78	0.03	
GBP	0.10	0.07	0.48	0.86	GBP	0.58	-0.02	NZGB 1 1/2 05/15/31	1.71	0.05	10 year	1.96	0.03	
JPY	-0.05	-0.10	-0.02	0.06	JPY	0.03	0.00	NZGB 2 3/4 04/15/37	2.22	0.06	15 year	2.21	0.04	
CAD	0.25	0.44	0.82	1.68	CAD	1.20	-0.04	NZGB 1 3/4 05/15/41	2.50	0.05				

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

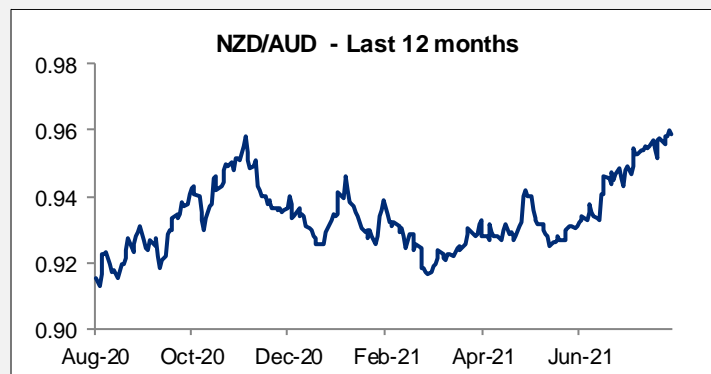
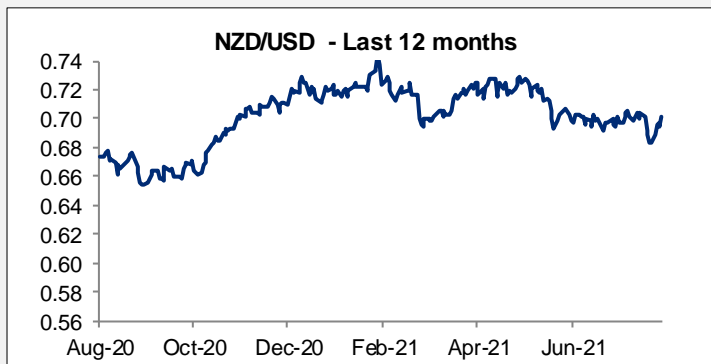
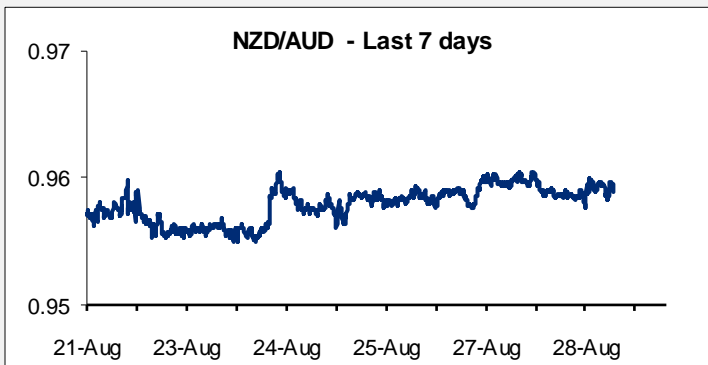
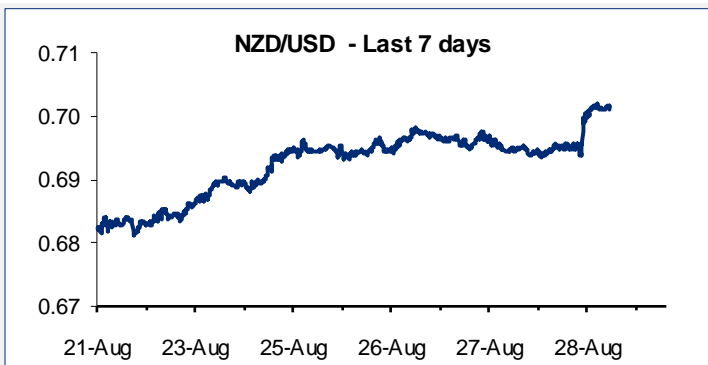
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New York close

Source: Bloomberg

**NZD exchange rates**

28/08/2021	NY close	Prev. NY close
USD	0.7012	0.6948
GBP	0.5094	0.5072
AUD	0.9588	0.9601
EUR	0.5945	0.5912
JPY	77.03	76.49
CAD	0.8847	0.8815
CHF	0.6389	0.6377
DKK	4.4206	4.3966
FJD	1.4737	1.4618
HKD	5.4606	5.4108
INR	51.67	51.57
NOK	6.1107	6.1428
PKR	115.70	114.03
PHP	35.02	34.73
PGK	2.4769	2.4362
SEK	6.0583	6.0502
SGD	0.9437	0.9406
CNY	4.5382	4.5036
THB	22.88	22.75
TOP	1.5541	1.5478
VUV	78.35	77.67
WST	1.7810	1.7767
XPF	70.66	70.38
ZAR	10.3271	10.3773



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.21	0.16
3 Months	-3.72	-3.30
6 Months	-13.52	-12.51
9 Months	-30.25	-28.25
1 Year	-50.45	-48.45

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-1.76	-1.01
3 Months	-9.47	-8.50
6 Months	-28.40	-26.15
9 Months	-53.83	-49.81
1 Year	-82.71	-78.40

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