

30 July 2021



Events Round-Up

NZ: ANZ activity outlook (net%), Jul: 26.3 vs. 31.6 prev.
 NZ: ANZ business confidence (net%), Jul: -3.8 vs. -0.6 prev.
 EZ: Economic confidence, Jul: 119 vs. 118.2 exp.
 GE: CPI EU harmonized (y/y%), Jul: 3.1 vs. 2.9 exp.
 US: GDP (q/q% ann'lsd), Q2: 6.5 vs. 8.4 exp.
 US: Core PCE deflator (q/q% ann'lsd), Q2: 6.1 vs. 6.1 exp.
 US: Pending home sales (m/m%), Jun: -1.9 vs. 0 exp.
 US: Initial jobless claims (k), 24-Jul: 400 vs. 385 exp.

Good Morning

The market brushed off a weaker-than-expected US Q2 GDP result overnight, with equities higher across the board and US rates nudging up. The USD has continued to weaken amidst ultra-low US real rates and improving risk appetite. The NZD is back above 0.70 and has made gains on all the key crosses.

The US GDP release has been the main market focus overnight. The headline result, annualised quarterly growth of 6.5% in Q2, was well below the consensus expectation of 8.4%. But the main reason for the undershoot was a sizeable 1.1% drag from the volatile inventories' component (inventories are now likely boost growth in Q3) with residential investment accounting for another -0.5%. Personal consumption was above expectations, growing at an exceptionally strong 11.8% (annualised) during the quarter as households started spending their record savings pile while business fixed investment grew by 8%. US GDP is now 0.8% above pre Covid levels. In other economic data, initial jobless claims were higher than expected, although seasonal adjustment issues appear to be distorting this data at present, while European economic confidence hit a record high in July.

Markets were unperturbed by the downside surprise to US GDP given the strong underbelly to the report (better consumption and business investment) and amidst expectations the Fed will be slow to taper its bond buying. US equities jumped after the release, with the S&P500 now up 0.5% to a fresh record high, led by cyclical sectors, while the NASDAQ is currently 0.2% higher. Tech stocks have been weighed down by Facebook's more cautious revenue outlook, which has seen its share price fall over 4%.

Market sentiment has been helped by a bounce back in Chinese equities after the sharp sell-off earlier in the week, prompted by a regulatory crackdown on the private education sector. As we reported yesterday morning, reports of a video conference between Chinese regulators and global banks and investors, reportedly to address concerns that other industries would be targeted, has helped lift market sentiment. Likewise, a front-page editorial in the Economic Daily, amongst other state media commentary, said the recent crackdown was not aimed at restricting the development of certain industries. The Chinese CSI300 index rose 1.9% yesterday, after it had fallen almost 7% earlier in the week.

The US 10-year rate has bounced back from its fall after yesterday's FOMC meeting. It is back at 1.27%, 4bps higher than yesterday's close, amidst a broader curve steepening move. Corporate issuance, including a multi-tranche offering from Apple, contributed to the curve steepening pressure. The US 10-year rate has been locked in a very tight range for the past week and a half, between 1.22% and 1.31%. The US 10-year real yield, at -1.15%, remains near its all-time low.

The USD has been under downward pressure since yesterday morning's Fed meeting, with the general consensus now that the Fed won't make a tapering announcement until late this year. The Bloomberg DXY index is down 0.4% and now trading at a one-month low, with ultra-low US real yields and positive risk appetite weighing down on the USD.

The NZD has outperformed overnight and is back above the 0.70 cent mark (+0.9% over the past 24 hours). It has recovered ground on all the key crosses, with NZD/GDP back above 0.50, NZD/EUR back to 0.59 and NZD/AUD up to near its recent highs, at 0.9480.

The AUD has underperformed the rest of the commodity currency bloc (+0.3% to 0.74) amidst a new high in Covid-19 case numbers in NSW yesterday (239), further entrenching expectations for an extended lockdown there. The RBA is expected to reverse its plan to taper its bond buying in September, with some economists even arguing that it will announce an increase to its weekly bond buying pace in light of the expected hit to growth from the lockdowns. Iron ore prices were also around 2.5% lower yesterday, to a one-month low, although that went against the grain of broader strength in hard commodity prices (including oil +1% and copper +1.5%).

NZ rates were slightly lower yesterday, by 1bp across the swap curve and 2-3bps in most government bonds. Government bonds outperformed on the back of strong demand at the weekly government bond tender, with bid-to-cover ratios of 2x or higher across the three bonds. A week on from the end of the RBNZ's bond buying, the bond market is still showing no ill effects.

Yesterday's ANZ business survey saw both business confidence and the activity outlook dip in July, albeit with the latter remaining above its long-term average. Pricing intentions remained extremely high while inflation expectations picked up further, to a 9½ high of 2.7%, with ANZ noting that responses in the later part of the survey were running up at 3.3%. Finally, employment intentions nudged even higher, consistent with very strong demand for labour. We saw the survey as consistent with our expectation the RBNZ will raise the OCR next month.

There is a lot of economic data over the next 24 hours. GDP and CPI are released in Europe, with core inflation expected to remain well below the ECB's 2% target at just 0.7%, while the US reports personal income and spending data for June and the Fed's preferred inflation measure,

the core PCE deflator (3.7% y/y expected). The Chinese PMIs are released over the weekend.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Consumer Confidence Index	Jul		114.1	10:00
NZ	Building Permits (m/m%)	Jun		-2.8	10:45
GE	GDP (q/q%)	2Q P	2	-1.8	20:00
EC	GDP (q/q%)	2Q A	1.5	-0.3	21:00
EC	Core CPI (y/y%)	Jul P	0.7	0.9	21:00
US	Employment Cost Index (q/q%)	2Q	0.9	0.9	00:30
US	Personal Income (m/m%)	Jun	-0.3	-2	00:30
US	Personal Spending (m/m%)	Jun	0.7	0	00:30
US	Core PCE deflator (y/y%)	Jun	3.7	3.4	00:30
US	MNI Chicago PMI	Jul	64.1	66.1	01:45
CH	Non-manufacturing PMI	Jul	53.3	53.5	13:00
CH	Manufacturing PMI	Jul	50.8	50.9	13:00
CH	Composite PMI	Jul		52.9	13:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)				Other FX		Major Indices			Price						
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7013	+0.9	0.6972	0.7020	CHF	0.9055	-0.5		S&P 500	4,423	+0.5	35.7	Oil (Brent)	76.05	+1.8
AUD	0.7400	+0.3	0.7377	0.7413	SEK	8.546	-0.6		Dow	35,118	+0.5	32.3	Oil (WTI)	73.57	+1.6
EUR	1.1891	+0.4	1.1852	1.1891	NOK	8.728	-0.9		Nasdaq	14,796	+0.2	40.3	Gold	1830.2	+1.7
GBP	1.3968	+0.5	1.3928	1.3982	HKD	7.771	-0.1		Stoxx 50	4,117	+0.3	24.7	HRC steel	1888.0	+0.3
JPY	109.47	-0.4	109.47	109.91	CNY	6.456	-0.5		FTSE	7,078	+0.9	15.4	CRB	221.2	+1.0
CAD	1.2441	-0.7			SGD	1.352	-0.3		DAX	15,640	+0.5	22.0	Wheat Chic.	713.5	+2.3
NZD/AUD	0.9477	+0.5			IDR	14,483	-0.0		CAC 40	6,634	+0.6	33.8	Sugar	18.30	-1.5
NZD/EUR	0.5898	+0.5			THB	32.86	+0.1		Nikkei	27,782	+0.7	24.4	Cotton	90.76	-0.6
NZD/GBP	0.5021	+0.4			KRW	1,146	-0.7		Shanghai	3,412	+1.5	3.8	Coffee	196.5	-1.8
NZD/JPY	76.77	+0.5			TWD	27.91	-0.3		ASX 200	7,417	+0.5	22.6	WM powder	3790.0	+0.4
NZD/CAD	0.8725	+0.1			PHP	50.32	-0.1		NZX 50	12,729	+1.1	8.9	Australian Futures		
NZ TWI	74.26	+0.6											3 year bond	99.725	0.01
													10 year bond	98.84	-0.02

Interest Rates													
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds	NZ Swap Yields					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	0.25	0.13	0.28	1.30	USD	1.27	0.04	NZGB 5 1/2 04/15/23	0.69	-0.03	1 year	0.82	-0.01
AUD	0.10	0.02	0.19	1.29	AUD	1.15	0.00	NZGB 2 3/4 04/15/25	0.97	-0.03	2 year	1.03	-0.01
NZD	0.25	0.47	1.04	1.79	NZD	1.48	-0.01	NZGB 4 1/2 04/15/27	1.17	-0.01	5 year	1.42	-0.01
EUR	0.00	0.06	-0.49	-0.06	GER	-0.45	0.00	NZGB 3 04/20/29	1.37	-0.01	7 year	1.59	-0.01
GBP	0.10	0.07	0.43	0.84	GBP	0.57	-0.00	NZGB 1 1/2 05/15/31	1.48	-0.02	10 year	1.77	-0.01
JPY	-0.05	-0.10	-0.03	0.05	JPY	0.02	0.00	NZGB 2 3/4 04/15/37	1.95	-0.03	15 year	1.98	-0.01
CAD	0.25	0.44	0.79	1.66	CAD	1.20	0.03	NZGB 1 3/4 05/15/41	2.22	-0.03			

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

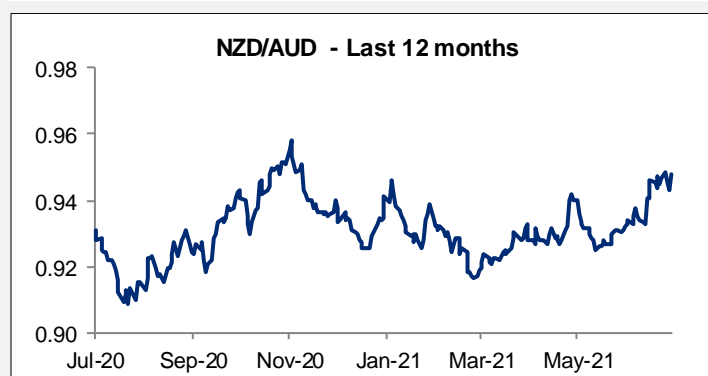
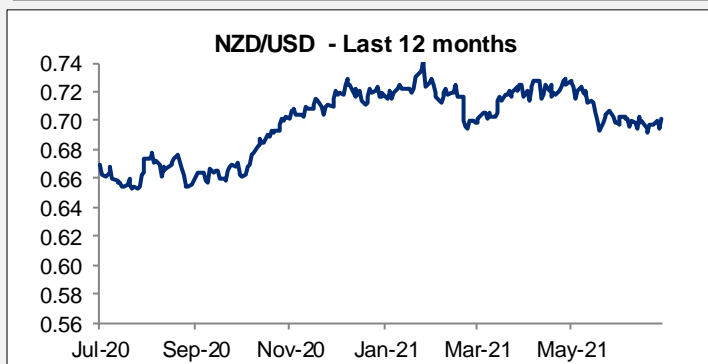
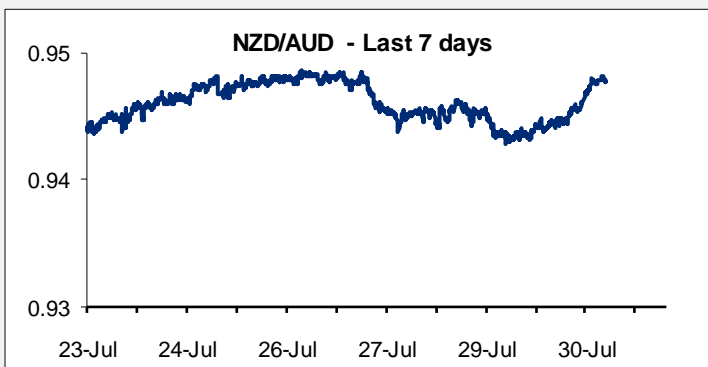
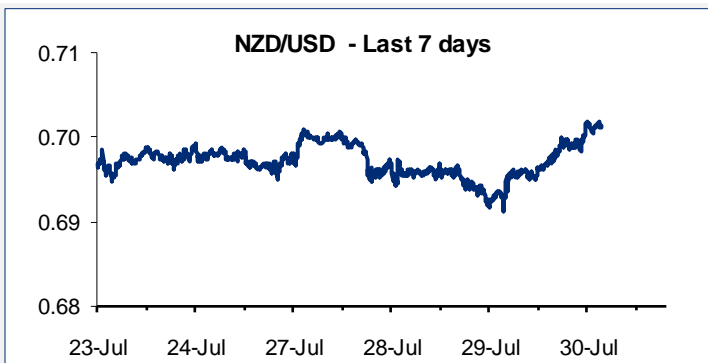
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of New York 06:59

Source: Bloomberg

NZD exchange rates

30/07/2021	6:59 a.m.	Prev. NY close
USD	0.7013	0.6949
GBP	0.5021	0.4999
AUD	0.9477	0.9421
EUR	0.5898	0.5867
JPY	76.77	76.38
CAD	0.8725	0.8706
CHF	0.6350	0.6324
DKK	4.3868	4.3636
FJD	1.4607	1.4532
HKD	5.4496	5.4069
INR	52.10	51.68
NOK	6.1206	6.1192
PKR	113.61	111.85
PHP	35.29	35.02
PGK	2.4607	2.4382
SEK	5.9935	5.9755
SGD	0.9483	0.9427
CNY	4.5279	4.5105
THB	23.06	22.91
TOP	1.5682	1.5522
VUV	77.72	77.05
WST	1.7977	1.7783
XPF	70.56	69.84
ZAR	10.1992	10.2491



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.60	-0.30
3 Months	-3.83	-3.33
6 Months	-12.14	-11.15
9 Months	-24.41	-22.89
1 Year	-39.69	-37.69

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.37	-1.74
3 Months	-9.29	-8.30
6 Months	-25.21	-23.18
9 Months	-43.19	-39.89
1 Year	-64.32	-59.96

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