

## Hope Springs

**It's lockdown day 15 but also the first day of spring which should help bolster weary spirits.** There's also hope NZ's COVID outbreak is being slowly brought to heel with 49 new cases announced yesterday – the lowest in six days. Those lucky enough to live south of Auckland have also stepped down to Alert Level 3 today (brace for plenty of #takeawaychat). On our quick estimates, this nearly halves the economic impact of the full nation-wide Level 4 lockdown.

Clearly, **offshore experience warns of complacency when it comes to the Delta strain.** But this was apparently lost on the currency. The kiwi dollar has outperformed noticeably over the past 24 hours although, admittedly, the gains began shortly before yesterday's 1pm COVID announcement. The NZD/USD is top of the G10 leaderboard and about ½ cent higher around 0.7050, down a little from the 0.7065 overnight high. NZD/AUD has pushed on to a 17-month high around 0.9635.

**Market positioning may have played a role in exacerbating the moves.** But, given positive NZD fundamentals, there's probably further upside risk for the NZD should COVID risks ease from here. In contrast to the currency, wholesale interest rate markets were essentially unmoved yesterday. This might reflect the fact that rates markets are arguably already priced to perfection, with 25bps OCR increases at each of the next three RBNZ meetings over 90% priced. Still, long-end rates should open this morning a little higher reflecting a modest lift in offshore yields overnight.

**Local data released yesterday were again given a wide berth given they mostly pre-dated lockdown.** Around ¾ of response to the August ANZ business confidence survey were received prior to lockdown. Headline confidence (-14.2 from -3.8) and own activity expectations (19.2 from 26.3) slipped a little but the underlying pulse of the survey remained solid. ANZ described the limited responses received post L4 lockdown as “encouragingly robust.” Pricing intentions – a key inflation indicator – were notably *higher* in post lockdown responses compared to those received prior. This will embolden the interest rate hawks.

Building consents rose a further 2.1% in July, lifting annual consent numbers to another record high. As noted in our latest [Home Economics](#) piece, we expect booming residential housing supply and weakening population growth to take the edge off NZ house price growth, but not until next year. The lags are long.

**Overnight, markets have been quiet.** Equity markets are largely flat, FX movements outside of the NZD have been well contained while bond yields are a little higher following some decent European data. This despite a fairly full data calendar. Chinese PMI data disappointed, particularly on the services side (non-manufacturing PMI 47.5 vs. 52 expected), and European CPI inflation figures surged above expectations (3.0% vs. 2.7% expected). US data meanwhile printed mostly on the softer side, mostly notably the Conference Board consumer confidence index. This backs up the weaker read from the Uni of Michigan survey.

**Day ahead:** Nothing locally aside from the now de-rigueur 1pm COVID update. But there's a couple of global heavy hitters that will have relevance for markets. Aussie Q2 GDP at 1:30pm has been pegged at 0.3% qoq by our friends at CBA (0.5% market). As penned by CBA's Marty Whetton: “Rear view mirror stuff, surely. Yes, but if combined with the shocker that Q3 will be, you have the makings of the double dip.”

In the US there's the closely-watched ISM manufacturing survey. Another strong result is expected, but we'll probably see a little more attention on the employment sub-component now that the Fed has tied prospects for a Sep/October taper to the US labour market. **Author:** [mike.jones@asb.co.nz](mailto:mike.jones@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7047	0.7%	NZD/SEK	6.079	0.7%	NZX WMP	3550.0	0.0%	Dow	35361	-0.1%
NZD/AUD	0.9631	0.4%	NZD/DKK	4.437	0.6%	Gold \$/o	1815.0	0.3%	S&P 500	4522	-0.1%
NZD/EUR	0.5967	0.6%	NZD/THB	22.7	0.0%	WTI Oil \$/b	68.5	-1.0%	NASDAQ	15259	0.0%
NZD/JPY	77.53	0.8%	AUD/USD	0.7317	0.3%	<b>Money Market (%)</b>			FTSE	7120	-0.4%
NZD/GBP	0.5124	0.7%	EUR/USD	1.181	0.1%	90 Day BB	0.46	0.00	CAC-40	6680	-0.1%
NZD/CAD	0.8889	0.7%	USD/JPY	110.0	0.1%	OCR	0.25	0.00	DAX	15835	-0.3%
NZD/CHF	0.6453	0.5%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	25879	1.3%
NZD/HKD	5.482	0.6%	NZ	1.82	0.00	1yr	0.94	-0.02	Nikkei	28090	1.1%
NZD/SGD	0.9473	0.6%	US	1.31	0.03	2yr	1.29	0.00	ASX200	7535	0.4%
NZD/CNH	4.549	0.6%	Aust	1.16	-0.01	5yr	1.65	0.00	NZX50	13219	0.0%

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