

Nervous calm

There's been a bit of respite for the NZD/USD and risk appetite generally in overnight trade, albeit the moves don't look particularly convincing. The list of investor worries hasn't suddenly got any shorter. US equity indices are flat-to-down, with the S&P500 set to register a decent fall for the month – the first monthly fall since last October. The USD has eased off 1-year highs, which has allowed a small recovery in most G10 currencies. The NZD/USD is about 40 points above its overnight lows, around 0.6900 as we go to press.

There's been plenty of news out over the past 24 hours, although none of it has been particularly market moving. A US government shutdown has been avoided as lawmakers agreed in principle to extend government spending until 3 December. A bigger worry is a US default if Congress fails to lift or suspend the debt ceiling in the next couple of weeks. US Treasury Secretary Yellen projects the US will run out of cash by 18 October, and was out warning of “irreparable” harm overnight if it doesn't go through. Ratings agency S&P said overnight it reckons the US will get it done.

Investor worries about the Chinese growth slowdown weren't helped by a subpar PMI yesterday. The ‘official’ manufacturing PMI dipped into contractionary territory for the first time since the pandemic booted off in 2020 (49.6 vs. 50.0 expected). Better-than-expected reads on the private sector Caixin PMI (which surveys smaller businesses) and the non-manufacturing PMI (53.2 vs. 49.8 expected) seemed to limit any market fallout.

The final read on the September ANZ business confidence survey did little to change anyone's economic views. The overall results were little changed from the preliminary version released earlier in the month. Despite the shift up in Alert Levels, the economy is holding in pretty well and should bounce strongly in time. The survey's key own activity growth indicator fell only a little from August levels (18.2 from 19.2). And bear in mind that's with Auckland spending most of the month in Alert Level 4. Meanwhile, and more importantly, inflation indicators haven't eased up at all, and remain at extreme levels. No wonder the RBNZ remains resolute in its intention to get cracking on OCR hikes (with the first 25bps rate rise expected next Wednesday).

Staying with local data, we saw another 3.8% monthly increase in building permits over August. This takes annual consent issuance to yet another record high and is particularly impressive given the return to full L4 lockdown in the second half of the month. It's another confirmation of strong pipeline of work for the construction sector, although extreme difficulties in sourcing both staff and materials will likely see completion rates fall.

Yesterday's three Aussie data prints for August were solid, particularly in light of the lockdowns in place around the country. Private sector credit grew at a solid pace, residential building approvals lifted, and the job vacancies remain higher than pre-pandemic levels. Like NZ, the Aussie economy looks set to rebound once lockdowns ease, and the RBA is expected to start normalising the cash rate from May 2023.

FX update: Another night of good commodity price gains and the easing in the USD saw the NZD/USD to recover about ½ cent of the ground lost this week. It sits around mid-pack in the overnight FX performance rankings, with AUD/USD at the top (NZD/AUD down further to 0.9550).

Day ahead: Likely to be dominated by tonight's September update on the closely-watched US ISM manufacturing survey. The headline activity index is expected to remain roughly stable, with the price index likely to ease a little, but not much, from the stratospheric levels of a couple of months ago. We suspect the market will push USD higher on a strong number.

European CPI inflation is expected to rise to the highest level in 19 years (3.3% yoy) while the US core Private Consumption Expenditure deflator is expected to ease a little, albeit to a still-elevated 3.5% yoy. In the Asian timezone, there's a smattering of 2nd/3rd tier Aussie data while in NZ we'll get a 10am update on consumer confidence.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6913	0.7%	NZD/SEK	6.0501	0.1%	CRB Index	228.922	0.1%	Dow	34154	-0.7%
NZD/AUD	0.9554	-0.1%	NZD/NOK	6.0382	0.3%	NZX WMP	3780	0.1%	S&P 500	4340	-0.5%
NZD/EUR	0.5966	0.7%	NZD/THB	23.26	-0.3%	Gold \$/o	1757.27	1.8%	NASDAQ	14580	0.5%
NZD/JPY	77.00	0.2%	AUD/USD	0.7235	0.8%	WTI Oil \$/b	75.2	0.4%	FTSE	7086	-0.3%
NZD/GBP	0.5127	0.3%	EUR/USD	1.1588	-0.1%	NZD Swap Rates (%)			DAX	15261	-0.7%
NZD/CAD	0.8749	-0.1%	USD/JPY	111.38	-0.6%	OCR	0.25	0.00	CAC-40	6520	-0.6%
NZD/CHF	0.6446	0.5%	10 Yr Bond Yields (%)			3mth	0.66	0.03	H.Seng	24576	-0.4%
NZD/HKD	5.3816	0.7%	NZ	2.09	0.03	1yr	1.09	0.00	Nikkei	29453	-0.3%
NZD/SGD	0.9385	0.3%	US	1.52	0.01	2yr	1.43	-0.02	ASX200	7332	1.9%
NZD/DKK	4.4361	0.8%	Aust	1.49	0.00	5yr	1.88	-0.01	NZX50	13276	0.0%

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