

US shares dip and yields lower on mixed data and earnings reports

US personal income and expenditure data were stronger than expected on Friday. Personal income rose by 0.1% in June (survey: -0.3%). Personal spending rose by 1.0% (survey +0.7%). However, the core personal consumption expenditure deflator (an inflation measure) rose by 0.4% in June to be up 3.5% on the year (survey: 3.7%). The Chicago Purchasing Managers Index rose from 66.1 to 73.4 in July.

US Treasury yields were firmer on Friday (yields lower) after the above-mentioned inflation gauge was softer than expected. US 10-year yields fell by 4 points to 1.2256% and 2-year yields fell by 2 points to 0.1878%. Over the week US 10-year yields fell 6 points and US 2-year yields fell 1 point.

The latest Chinese PMI data were slightly weak, with the manufacturing Purchasing Managers Index down from 50.9 to 50.4 in July and services down from 53.5 to 53.3.

The euro-zone economy grew by 13.7% in the year to June (survey: +13.2%). **European sharemarkets** were weaker on Friday. Fears about the economic impact of the Delta variant and the regulatory crackdown in China offset positive earnings and economic reports. The pan-European STOXX 600 index lost 0.5% but rose for the sixth straight month in July. The German Dax index fell by 0.6% and the UK FTSE fell by 0.7%.

US sharemarkets were also weaker on Friday. Shares in Amazon fell 7.6% on softer earnings and sales guidance. Other earnings results were mixed. The Dow Jones index fell 0.4%, the S&P 500 index lost 0.5%, and the Nasdaq index fell 0.7%. Over the week the Dow and S&P 500 fell by 0.4% and the Nasdaq fell by 1.1%. Over July the Dow rose 1.3% the S&P 500 rose 2.3%, and the Nasdaq rose 1.2%.

New Zealand shares sold off broadly on Friday, with the S&P/NZX 50 index down 1.1%. That wiped out all the gains from Thursday's encouraging lift. The local index remains around 7% below the peak back in January. NZ Government 5-year yields were little changed over the week, while 10-year yields were up 3 basis points.

FX Update: Major currencies were weaker against the US dollar in European and US trade. The NZD starts the week trading around 0.6970 vs the USD and 0.9500 against the AUD.

Day ahead: In Australia, the CoreLogic home value index is released, along with job ads data, and the July manufacturing PMI. PMI data are also due in Europe and China. In the US, the ISM and Markit purchasing manager indices are released, along with construction spending data. Already-released regional manufacturing surveys show that activity remained near record highs in the US.

Week ahead local: On Wednesday we expect Q2 labour data to show strong employment growth, and the unemployment rate fall to 4.4% from 4.7% in Q1. The key focus of the Q2 labour market data release will be on the inflationary impacts of a tight labour market, in particular the wage inflation figures and the RBNZ's measures of labour market underutilisation. We expect the benchmark measure of wage inflation, the Private Sector Ordinary Time Labour Cost Index lifted by 0.8% qoq in Q2, bringing annual wage inflation up to 2.1%. The latest Global Dairy Trade auction takes place on Tuesday night.

Week ahead offshore: The Australian highlight is the RBA cash rate decision tomorrow. We expect monetary policy settings to be left unchanged, with the cash rate and the April 24 Australian Government bond yield target left at 0.1%. However, we do expect the RBA to announce a reversal of its decision last month to begin tapering the bond buying program from mid-September. The Bank of England also has an interest rate announcement on Thursday (no change expected). The US jobs report (Non-farm Payrolls) is due on Friday, and another solid month of employment is expected for July, with employment growth of 800K expected. **Author:** chris.tennent-brown@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6973	0.1%	NZD/SEK	5.994	0.0%	NZX WMP	3805.0	0.4%	Dow	34935	-0.4%
NZD/AUD	0.9505	0.1%	NZD/DKK	4.371	0.0%	Gold \$/o	1814.2	-0.8%	S&P 500	4395	-0.5%
NZD/EUR	0.5874	0.0%	NZD/THB	22.9	-0.1%	WTI Oil \$/b	74.0	0.4%	NASDAQ	14673	-0.7%
NZD/JPY	76.48	0.0%	AUD/USD	0.7336	-0.1%	Money Market (%)			FTSE	7032	-0.7%
NZD/GBP	0.5015	0.0%	EUR/USD	1.187	0.0%	90 Day BB	0.48	0.01	CAC-40	6613	-0.3%
NZD/CAD	0.8699	0.1%	USD/JPY	109.7	0.0%	OCR	0.25	0.00	DAX	15544	-0.6%
NZD/CHF	0.6315	0.1%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	25961	-1.3%
NZD/HKD	5.416	0.0%	NZ	1.65	0.04	1yr	0.82	0.02	Nikkei	27284	-1.8%
NZD/SGD	0.9445	0.0%	US	1.22	-0.05	2yr	1.05	0.01	ASX200	7393	-0.3%
NZD/CNH	4.506	0.0%	Aust	1.19	0.03	5yr	1.46	0.02	NZX50	12595	0.0%

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