

Soft US employment data dim prospect of imminent FOMC tapering

Monday's dip in new delta variant cases in NZ was not sustained with 75 new community cases reported yesterday (74 in Auckland, 1 in Wellington), taking the number of active cases to 687. Despite the blip, NZ health guru Dr Bloomfield said the "latest bounce" was not unexpected. **There was a "90%" probability that the underlying reproduction rate of the outbreak was still below 1, which means new cases should trend lower over time. Here's hoping.**

Prospects of imminent FOMC tapering likely dimmed following the weaker than expected 374k climb in the August ADP employment survey (mkt: 625k), with the employment component of the manufacturing ISM falling to its lowest level over 2021 (49%). Market expectations for the August payrolls print are 725k. Our CBA colleagues expect the FOMC to start tapering its USD120bn in monthly asset purchases in the next few months.

Equity markets overnight traded with a modestly positive vibe, with weaker than expected US employment data (see below) supporting defensive stocks and technology stocks and helping to drive modest rebounds in the S&P500 and Nasdaq. European stocks were up as rising vaccinations (the EU hit its 70% target for adults to be fully vaccinated for COVID-19) would keep the global rebound on track. Reduced fears over regulatory clampdowns provided a lift to Chinese stocks.

US Treasury yields were slightly lower for longer-term tenors (10Y 1.30%), with 10-year yields falling as low as 1.28% early this morning. UK yields were about 2bps lower across the curve despite strong housing data and the announced appointment of policy hawk Huw Pill as new BOE Chief economist. Australasian yields moved higher after yesterday's open to be higher across the curve. **Oil prices were little changed** despite OPEC+ reiterating it would stick to its plan to maintain slightly higher production levels.

Stronger new orders and production pushed up the manufacturing ISM to 59.9 (mkt: 58.5) notwithstanding weaker employment readings, signs of greater backlogs and issues with global supply chains. Manufacturing PMIs showed strong momentum in the US (61.1 versus mkt: 61.2), Eurozone (61.4 versus 61.5), UK (60.3 versus 60.1), although the 49.2 reading for China was the weakest since February 2020.

Immediate market reaction was modest after the stronger than expected 0.7% qoq print for Q2 Australian GDP (9.6% yoy). While historical, the print confirmed decent momentum heading into the lockdowns. **Our CBA colleagues expect GDP will post a big contraction of ~4½% over Q3 and, with lockdowns set to continue, a partial Q4 rebound beckons (+2¼% qoq).** They do not expect the RBA to proceed with the already-announced taper at the September Board meeting next Tuesday.

The Australian housing market has continued to perform strongly with prices across the 8 capital cities rising 1.5% in August, with annual house price inflation ballooning to 17.5%. **Our CBA colleagues expect the housing market to remain disconnected with the weakness in GDP over 2021 with annual house price inflation to end 2021 at 20%. Our house price forecasts for NZ are in a similar ballpark.** House price inflation is also accelerating to 11% yoy according to the UK August Nationwide figures.

FX Update: Boosted by the positive tone of data, the AUD was the strongest performer overnight and sat at the top of the G10 leader board. The NZD was dragged along for the ride, gaining against most NZD bilaterals. The kiwi traded in a 0.7035 to 0.7080 USD range overnight and is currently a shade below 96 Australian cents. Given positive NZD fundamentals (OCR hikes are coming and NZ commodity prices up more than 18%yoy in USD terms according to our latest ASB commodity price [report](#)) we remain upbeat on short-term NZD prospects.

Day ahead: The 1pm COVID update remains on the watchlist. Barring catastrophe, Northland looks set to join most of the rest of the country (sorry Auckland) in Level 3 at 11.59pm tonight. Surging agricultural commodity prices are yet to filter through into the NZ Q2 terms of trade (mkt: +0.3% qoq, ASB: -1.3% qoq), but we remain bullish on the agricultural sector outlook. Another strong monthly trade surplus is on the cards for Australia (AUD10bn). The events calendar is light this evening with US jobless claims, factory orders and durable goods data out with comments by Fed voters Daly and Bostic likely on the wires. **Author:** mark.smiht4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7067	0.3%	NZD/SEK	6.087	0.2%	NZX WMP	3560.0	0.3%	Dow	35319	-0.1%
NZD/AUD	0.9589	-0.5%	NZD/DKK	4.437	0.0%	Gold \$/o	1815.0	0.1%	S&P 500	4530	0.1%
NZD/EUR	0.5967	0.0%	NZD/THB	22.8	0.4%	WTI Oil \$/b	68.3	-0.3%	NASDAQ	15331	0.5%
NZD/JPY	77.72	0.1%	AUD/USD	0.7369	0.7%	Money Market (%)			FTSE	7150	0.4%
NZD/GBP	0.5131	0.1%	EUR/USD	1.184	0.3%	90 Day BB	0.50	0.04	CAC-40	6759	1.2%
NZD/CAD	0.8919	1.4%	USD/JPY	110.0	0.0%	OCR	0.25	0.00	DAX	15824	-0.1%
NZD/CHF	0.6466	0.2%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26028	0.6%
NZD/HKD	5.497	0.3%	NZ	1.92	0.10	1yr	0.97	0.01	Nikkei	28451	1.3%
NZD/SGD	0.9501	0.3%	US	1.30	-0.01	2yr	1.32	0.02	ASX200	7527	-0.1%
NZD/CNH	4.559	0.0%	Aust	1.25	0.09	5yr	1.70	0.04	NZX50	13243	0.0%

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