

Ardern announces quarantine-free travel for some Pacific workers to NZ

Yesterday PM Ardern announced that NZ will allow one-way quarantine-free travel of migrant Recognised Seasonal Employer (RSE) workers into NZ from Tonga, Western Samoa and Vanuatu. The number of RSE workers it will attract to NZ is unknown, but with NZ requiring 10,000 RSE workers during the summer peak such moves will help partly alleviate chronic seasonal labour shortages. Nevertheless, we still expect labour shortages to remain acute given the border restrictions, with NZ wage inflation set to strengthen.

Global Stocks were generally higher overnight as the earlier rebound in Chinese stocks bolstered sentiment. Strong corporate earnings and a slew of corporate deals also provided a boost to US stocks, although the weaker tone of US data and concerns over US growth saw some of the earlier buoyancy unwind later in the session. European equities closed at record highs for the Euro Stoxx 600, also supported by strong corporate earnings. Reduced fears of a crackdown by Chinese regulators had earlier pushed Chinese stocks higher, and this filtered through to broader Asian and Australasian stocks.

Government bond yields were lower. US Treasury yields (10Y 1.18%) were lower across the curve, with 10-year yields falling to as low as 1.15% after the release of the weaker US data before subsequently recovering. European government bond yields were lower with a curve flattening bias (UK 10Y 0.52%, Germany 10Y -0.49%). Australian yields ticked up yesterday in quiet bank-holiday Sydney trading. NZ yields were little changed yesterday.

Energy and metal commodity prices were generally lower. Oil prices fell after the US, UK and Israel vowed to respond to drone attacks on oil shipping, blaming Iran. Near-term contract prices for WTI and Brent were 3-4% lower. Prices for iron ore partly rebounded from earlier falls on speculation Chinese authorities will cut steel production to meet environmental objectives. Gold prices were little changed.

The July US manufacturing ISM undershot expectations, falling to 59.5, the lowest level since January (mkt: 60.9).

Lingering supply constraints were likely behind the decline, with firms struggling to meet increasing demand (new orders were a still lofty 64.9) and running down inventories (which fell to 48.9). Prices paid remained extremely elevated at 85.7 (92.1 prior). The US Markit manufacturing PMI, however, hit a record high 63.4 (mkt: 63.1).

July manufacturing gauges elsewhere were generally upbeat. While the Caixin Manufacturing PMI slowed in China (50.3 versus mkt: 51), Markit manufacturing gauges showed strong momentum in Australia (56.9 versus 56.8 prior), the UK (60.4 versus mkt: 60.4), and the Eurozone (62.8 versus mkt: 62.4).

Australian dwelling prices continued to strengthen, up 1.6% across the 8 capital cities in July, with strong gains in Sydney in recent months. Annual house price inflation for the 8 capital cities firmed to 15.1% and our CBA colleagues expect 20% rises over 2021 and 7% over 2022.

FX Update: The Japanese yen and Australian dollar were towards the top of the G10 currency leader board overnight, with the USD and NZ mid-table and sterling, NOK, SEK and CAD towards the bottom. The NZD traded in a tight 0.6960 to 0.6995 USD range overnight and has eased to 94.7 Australian cents. Widening interest rate differentials, solid export commodity prices, recovering global prospects should provide continued support to the NZD.

Day ahead: Australian building approvals and housing credit data ahead of the RBA policy decision (4.30pm). Our CBA colleagues expect the cash rate and April 24 Australian Government bond yield target to be left at 0.1%, but for the RBA to announce a reversal of its decision last month to begin tapering the bond buying program from mid-September. Tonight has the GDT dairy auction, with futures pricing pointing to a small lift (our current forecasts for the Fonterra 21/22 milk price is \$7.90kgMS). US durable goods are also out. **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6968	-0.1%	NZD/SEK	5.994	0.0%	NZX WMP	3800.0	-0.1%	Dow	34882	-0.1%
NZD/AUD	0.9468	-0.4%	NZD/DKK	4.366	-0.1%	Gold \$/o	1813.6	0.0%	S&P 500	4396	0.0%
NZD/EUR	0.5870	0.0%	NZD/THB	23.0	0.2%	WTI Oil \$/b	71.1	-3.8%	NASDAQ	14693	0.2%
NZD/JPY	76.20	0.1%	AUD/USD	0.7359	0.3%	Money Market (%)			FTSE	7082	0.7%
NZD/GBP	0.5018	0.1%	EUR/USD	1.187	0.0%	90 Day BB	0.50	0.02	CAC-40	6676	1.0%
NZD/CAD	0.8718	0.2%	USD/JPY	109.4	-0.3%	OCR	0.25	0.00	DAX	15569	0.2%
NZD/CHF	0.6310	-0.1%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26236	1.1%
NZD/HKD	5.417	0.0%	NZ	1.66	0.01	1yr	0.84	0.02	Nikkei	27781	1.8%
NZD/SGD	0.9431	-0.1%	US	1.18	-0.04	2yr	1.05	0.00	ASX200	7491	1.3%
NZD/CNH	4.505	-0.1%	Aust	1.19	0.03	5yr	1.45	-0.01	NZX50	12703	0.9%

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