

Kiwi flies on USD's demise

The most eye-catching development in financial markets overnight has been the broad-based decline in the US dollar. All G10 FX pairs have notched up gains against the USD, with the commodity currencies NZD, AUD, and CAD occupying the top three spots, respectively, on the leader board. This thanks to a good night for commodity prices (oil +1.7%). The NZD/USD has been pulled up through 0.7100 to 2½ month highs around 0.7115. All the NZD crosses have made gains.

There's been no obvious catalyst for the USD sell off, other than a reasonably positive night for risk appetite. Indeed, the USD's 'safe-haven' counterparts the CHF and JPY have also underperformed. Global stock indices have made light gains while bond yields are largely flat. As ever, the approach of tonight's key US employment figures have had a tranquilising effect on trading interest and volumes across many markets.

The USD has generally been on the backfoot since Fed chair Powell appeared to successfully de-link in the market's mind a tapering of Fed asset purchases (likely in the next couple of months) to imminent hikes in the Fed Fund's rate. US yields have consequently stayed low, which has seen NZ-US interest rate differentials re-widen. We continue to expect the RBNZ to lift the OCR twice before the year is out, COVID dependent.

Yesterday we learned the NZ terms of trade lifted a further 3.3% in Q2. A decent lift in import prices was more than offset by a whopping lift in export prices, such that the terms of trade are now back near record highs. It was a stronger result than we and the market expected. Still, we'd expected a return to record highs relatively quickly, so yesterday's result doesn't alter our view, just the timing. Looking ahead, we expect gains for export prices to continue to outstrip those for imports, keeping our terms of trade well supported.

As with interest rate differentials, the high terms of trade are of course a strong fundamental support for the NZ dollar, something we've been banging on about for some time. It's a key part of the reason we've been expecting dips in the currency to be shallow and for the appreciation trend to resume once current COVID fog begins to clear.

Speaking of which, 49 new community COVID cases were announced yesterday. This keeps the downward trend intact for now, following the previous day's blip higher in cases. There was little market impact.

Economic data have been thin on the ground overnight. US weekly jobless claims were perhaps the only outturn worth a mention. New jobless filings fell to a fresh COVID low of 340k last week, a little less than the 345k expected. Claims have been steadily trending down from the 5-6m/week highs in mid-2020, another positive sign for the US labour market recovery.

Day ahead: August PMIs for Australia (Markit) and China (Caixin) are out, but both are different versions of data we've already received. That is, it's a relatively clear run in our time zone through to August US Non-farm Payrolls tonight.

The potential for Payrolls volatility is higher than usual given the Fed's explicit linking of a spring taper to "further substantial progress" in the labour market. Market expectations are centred on a 725k jobs gain (CBA 800k) and a 5.2% unemployment rate (CBA 5.2%). However, the 'whisper number' is likely to be lower following Wednesday's disappointing ADP employment report. Author: mike.jones@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7116	0.7%	NZD/SEK	6.098	0.2%	NZX WMP	3575.0	0.4%	Dow	35444	0.3%
NZD/AUD	0.9613	0.2%	NZD/DKK	4.457	0.4%	Gold \$/o	1810.3	-0.2%	S&P 500	4531	0.1%
NZD/EUR	0.5993	0.4%	NZD/THB	23.1	1.1%	WTI Oil \$/b	70.0	2.0%	NASDAQ	15331	0.1%
NZD/JPY	78.23	0.6%	AUD/USD	0.7401	0.5%	Money Market (%)			FTSE	7164	0.2%
NZD/GBP	0.5143	0.2%	EUR/USD	1.187	0.3%	90 Day BB	0.49	-0.01	CAC-40	6763	0.1%
NZD/CAD	0.8932	0.1%	USD/JPY	109.9	-0.1%	OCR	0.25	0.00	DAX	15841	0.1%
NZD/CHF	0.6507	0.5%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26090	0.2%
NZD/HKD	5.529	0.6%	NZ	1.93	0.01	1yr	0.99	-0.02	Nikkei	28544	0.3%
NZD/SGD	0.9553	0.5%	US	1.29	-0.01	2yr	1.33	0.01	ASX200	7486	-0.5%
NZD/CNH	4.589	0.4%	Aust	1.21	-0.04	5yr	1.71	0.01	NZX50	13280	0.0%

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