

RBNZ's housing patience wearing thin

The NZD/USD is back above 0.7000, a performance good enough for first place in the overnight FX performance leaderboard. NZD/AUD is a little higher around 0.9485. Both global & domestic factors have floated the kiwi's boat. It's been a generally upbeat (albeit uneventful) offshore session for risk appetite and equity markets (S&P500 +0.8%, Dow Jones +0.7%). In addition, the antipodean central banks both surprised markets yesterday with more hawkish (or less dovish) policy announcements.

Local OCR expectations are on the march again following yesterday's signal from the RBNZ that mortgage lending standards will be tightened later this year. Markets' interpretation was that the RBNZ has had enough of waiting for the housing market to cool and will thus use both tighter macro-prudential policy and a higher OCR to rein things in. The local swap curve lifted and flattened (2-year swap +7bps, 10-year +2bps) and the kiwi dollar rose around 30 pips against both the NZD and AUD as OIS markets lifted the implied odds of an August RBNZ rate hike to around 85%.

We'd thought the RBNZ might hold off on macroprudential actions to allow upcoming interest rate hikes to do their work, but the Bank appears particularly frustrated with continued "risky" lending. Along with lifting mortgage rates, the prospect of additional owner/occupier-targeted macroprudential intervention is another headwind for house price growth in 2022. Our calendar 2022 forecast for such currently sits at just 2% which, if anything, may be a touch strong.

In an apparent vote of confidence in the resilience of the Aussie economy, the RBA stuck to its guns yesterday. Instead of walking back its prior decision to begin tapering asset purchases from September, the Bank stuck with the planned September taper to A\$4b/week, from A\$5b. The AUD/USD and Aussie interest rates rose in response. According to our friends at CBA, the RBA's forecasts for inflation and unemployment are consistent with the first cash rate hike not coming until late 2023/early 2024. However, CBA has stuck with its forecast of the first hike coming in May 2023.

Last night's GDT dairy auction was a tad disappointing. The headline price index fell 1.0%. WMP prices underperformed, down 3.8%, the 8th consecutive fall, with prices for fats faring better (cheese +0.7%, butter +3.8%). It was a positive result for Fonterra's profitability but negative for Milk Price calculations. We're sticking with our \$7.90 kg/ms forecast for such but there is now clear downside risk attached to this.

Day ahead: This morning's Q2 NZ labour market data are expected to further make the case for higher interest rates in NZ. Unemployment is expected by ourselves and the consensus to fall from 4.7% to 4.4%. Measures of wage growth should all track higher reflective of extreme skill shortages (labour cost index f/c +0.8% q/q). The risks look tilted toward an even larger fall in unemployment, something that would push the NZD higher against the majors (particularly the AUD).

Post NZ data, Aussie retail sales growth at 1:30pm is expected to register a 1.8% decline for June as lockdown restrictions weigh. Caixin Chinese PMIs at 1:45pm will be worth a look and tonight brings the usual pre-Payrolls curtain-raiser in the form of ADP employment figures in the US. Author: mike.jones@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7017	0.6%	NZD/SEK	6.0338	0.7%	CRB Index	215.3	-0.2%	Dow	35113	0.8%
NZD/AUD	0.9488	0.2%	NZD/NOK	6.1810	0.4%	NZX WMP	3790	-0.3%	S&P 500	4420	0.7%
NZD/EUR	0.5914	0.7%	NZD/THB	23.18	0.9%	Gold \$/o	1811	-0.1%	NASDAQ	14758	0.5%
NZD/JPY	76.52	0.4%	AUD/USD	0.7397	0.5%	WTI Oil \$/b	70.4	-1.2%	FTSE	7106	0.3%
NZD/GBP	0.5041	0.4%	EUR/USD	1.1866	-0.1%	NZD Swap Rates (%)			DAX	15555	-0.1%
NZD/CAD	0.8794	0.8%	USD/JPY	109.06	-0.3%	OCR	0.25	0.00	CAC-40	6724	0.7%
NZD/CHF	0.6344	0.5%	10 Yr Bond Yields (%)			3mth	0.52	0.02	H.Seng	26195	-0.2%
NZD/HKD	5.4581	0.7%	NZ	1.67	0.00	1yr	0.90	0.07	Nikkei	27642	-0.5%
NZD/SGD	0.9482	0.5%	US	1.17	-0.01	2yr	1.13	0.07	ASX200	7474	-0.2%
NZD/DKK	4.3985	0.7%	Aust	1.16	-0.03	5yr	1.48	0.05	NZX50	12701	0.0%

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