

ASB: OCR set to lift 75bps by the end of 2021

It was a cracking set of labour market data yesterday, with things looking increasingly tight out there. There was a big drop in the unemployment rate from 4.7% to 4%, significantly ahead of consensus and ASB expectations, a risk we highlighted in yesterday's Daily Alert. Broader indicators of labour market slack also fell, with solid falls for the underutilisation rate, the unemployment rate for 20–24-year-olds and the Maori unemployment rate. The RBNZ has highlighted those three metrics as key determinants for the direction of monetary policy. In terms of wage growth, there was a decent-ish 0.9% qoq lift in the LCI. All-up, a fabulous set of numbers for anyone looking for a job.

We've adjusted our OCR call off the back of those figures, and now see the RBNZ opting for three swift 25bps hikes at its next three meetings. We've pencilled in the August, October and November meetings for hikes in our OCT track, but there's more than one way to skin the proverbial cat. The bank could conceivably opt to kick things off with a 50bps hike in a fortnight or opt to take a slightly more gradual approach. Either way the key takeaway is the same: the OCR is set to rise faster, sooner. Note that we still see the cash rate stabilising at a historically low 1.5% by end 2022. Stay tuned for our full RBNZ preview ahead of its August 18th meeting.

Local Recap: Some fairly swift market reaction off the back of the employment prints, as markets took the correct view that OCR hikes are even more likely. OIS pricing moved swiftly and now has a 25bps hike in August more than priced, with another one-and-a-half priced by the end of the year. Swap yields also lifted (2-year: +10bps, 10-year: +6bps) and the NZD made solid gains against the rest of the G10, putting on half a cent against the USD. The other major data out were the Aussie retail sales figures (exactly as expected at -1.8% mom) and China PMI data (pointing to an uptick in both services and manufacturing activity).

Broader global risk sentiment has softened a wee bit overnight. US ADP employment figures significantly undershot expectations, adding 330k jobs instead of a surveyed 690k. Added into the mix, we've had a few comments from Fed Vice Chair Richard Clarida, that there were upside risks to the inflation outlook, with the Bank on track for a taper announcement earlier this year. St Louis Fed President James Bullard made similar soundings about the risk inflation may prove more sustained than expected.

The upshot has seen equities ease a shade on Wall Street. As at the time of writing, the Dow is down 0.80% and the S&P500 is 0.30% lower. The tech-heavy Nasdaq has outperformed a bit, up 0.10%. It's a different story in Europe though with most indices making healthy gains overnight prior to close.

Shorter and medium-term Treasury yields are higher in the aftermath of the Fed comments. The bigger gains have been in the belly of the curve (5- to 7-years), with the 10-year yield little changed at 1.172% as at the time of writing. European bond yields are mostly lower.

FX: The NZD has continued to enjoy a moment in the sun overnight, holding onto most of its post-labour market gains – it's a sea of green against the rest of the G10. Notably, NZD/AUD is sitting just shy of 0.955, comfortably an eight-month high. Residual USD strength was another feature overnight, with the kiwi giving up some of its gains against the greenback (albeit still ahead of where it was pre-labour market) – NZD/USD currently sits around 0.706. The absence of anything spicy on the calendar, means event risk should be less of a feature today.

Day ahead: Chill vibes today after yesterday's excitement – hopefully Lisa Carrington or Caitlin Regal takes home another gold at the K1 500m final this afternoon. There's not much more going on overnight, with US weekly jobless and the ECB's economic bulletin the only data of any note in the offing. **Author:** nathaniel.keall@gmail.com

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7046	0.4%	NZD/SEK	6.068	0.5%	NZX WMP	3600.0	-5.0%	Dow	34837	-0.8%
NZD/AUD	0.9546	0.6%	NZD/DKK	4.426	0.6%	Gold \$/o	1812.3	0.1%	S&P 500	4409	-0.3%
NZD/EUR	0.5951	0.6%	NZD/THB	23.4	0.8%	WTI Oil \$/b	68.0	-3.6%	NASDAQ	14788	0.2%
NZD/JPY	77.12	0.6%	AUD/USD	0.7381	-0.2%	Money Market (%)			FTSE	7124	0.3%
NZD/GBP	0.5072	0.6%	EUR/USD	1.184	-0.2%	90 Day BB	0.62	0.10	CAC-40	6746	0.3%
NZD/CAD	0.8840	0.5%	USD/JPY	109.5	0.4%	OCR	0.25	0.00	DAX	15692	0.9%
NZD/CHF	0.6386	0.7%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26427	0.9%
NZD/HKD	5.479	0.4%	NZ	1.73	0.06	1yr	1.01	0.11	Nikkei	27584	-0.2%
NZD/SGD	0.9518	0.4%	US	1.17	0.00	2yr	1.23	0.10	ASX200	7503	0.4%
NZD/CNH	4.552	0.6%	Aust	1.15	-0.01	5yr	1.56	0.08	NZX50	12797	0.0%

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657	
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661	
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915	
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5720	
Publication and Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660	



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[@ASBMarkets](#)

ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland

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