

## QSBO, RBA to break up a dull start to the week

**We've kicked off the week with a very boring Monday in the world of financial markets.** There was little in the way of major data or event risk on the cards yesterday, and things have been similarly quiet overnight as the US recovers from a hazy 4<sup>th</sup> of July weekend earmarked by Budweiser and barbequing.

**It was a case of 'no news is good news' for the domestic market yesterday,** with equities enjoying a good session (NZX: +0.8%). In the bond market, there was a bit of curve flattening underway on the NZ and Aussie yield curves as markets digested the mixed US employment data over the weekend. The only real Downunder headlines of note came from the Australian final retail trade (+0.4% mom) and PMI data, both of which pointed to the strengthening activity outlook (albeit coming before the latest lockdowns).

**There haven't been too many headlines out of Europe either.** It's generally been a good evening for equities, with broad gains across the board. Bond yields have lifted, with the curve under steepening pressure.

**The most dramatic events of recent days have actually taken place in commodity markets, with a standoff in OPEC continuing over recent hours.** The dispute between Saudi Arabia and the United Arab Emirates (two of the group's influential members) over production quotas threatens to derail OPEC's attempts to agree on production levels out to the end of 2022. Some analysts are speculating the lack of a deal could see oil prices spike further, given the 'Plan B' fallback agreement sees production not rise at all. Sure enough, Brent Crude has surged above \$US77 a barrel for the first time in six years.

**FX Comment:** Moves in currency markets have been fairly muted in the absence of US trade. As of the time of writing, NZD/USD is virtually unchanged at around 0.703, while NZD/AUD is tracking sideways near 0.933.

**Day ahead:** Today should be a little bit more exciting with the release of the latest NZ Quarterly Survey of Business Opinion by the NZIER at 10am. There is little doubt capacity measures will rise further from their already-lofty levels and businesses will continue griping about labour shortages. If moves are particularly pronounced, it'll highlight the risk the RBNZ's first post-COVID rate hike comes sooner than our current May forecast. Enjoy it folks, because it's virtually our only piece of local data out this week.

Next up, we've got the first big slab of central bank action for July, with the RBA meeting at 4:30pm. Our CBA friends expect the Bank to maintain its yield curve control settings and signal its intention to taper asset purchases from September onwards. We suspect the RBA could announce a further \$A50bn in purchases (down from \$A100bn in its last round of purchases), but there's a bit of uncertainty around that given the COVID situation in Oz. So don't be surprised if the phrase 'flexible approach' finds its way into the statement instead.

Overnight, the biggest action will be the next GlobalDairyTrade auction. The futures market expects WMP to fall by about 2%, but we expect a slightly smaller dip. Our farmgate forecast for the 21/22 season sits at \$8.20kgms. European retail sales are about the only other thing on the agenda (mkt: +4.2% mom). **Author:** [nathaniel.keall@asb.co.nz](mailto:nathaniel.keall@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7025	0.0%	NZD/SEK	6.008	0.1%	NZX WMP	3905.0	-0.1%	Dow	34786	0.4%
NZD/AUD	0.9325	-0.2%	NZD/DKK	4.402	0.0%	Gold \$/o	1791.8	0.3%	S&P 500	4352	0.8%
NZD/EUR	0.5920	0.0%	NZD/THB	22.6	-0.2%	WTI Oil \$/b	75.2	-0.1%	NASDAQ	14639	0.8%
NZD/JPY	77.95	-0.2%	AUD/USD	0.7533	0.1%	<b>Money Market (%)</b>			FTSE	7165	0.6%
NZD/GBP	0.5073	-0.2%	EUR/USD	1.187	0.0%	90 Day BB	0.34	-0.01	CAC-40	6568	0.2%
NZD/CAD	0.8668	0.1%	USD/JPY	111.0	0.0%	OCR	0.25	0.00	DAX	15662	0.1%
NZD/CHF	0.6478	0.0%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	28144	-0.6%
NZD/HKD	5.457	-0.1%	NZ	1.78	-0.04	1yr	0.52	0.00	Nikkei	28598	-0.6%
NZD/SGD	0.9447	-0.2%	US	1.42	0.00	2yr	0.81	0.01	ASX200	7315	0.1%
NZD/CNH	4.539	0.0%	Aust	1.44	-0.04	5yr	1.35	-0.02	NZX50	12812	0.8%

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