

## US employment growth disappoints. NASDAQ sets a record and yields rise anyway

**In US economic data**, Non-farm Payrolls (employment) rose by 235,000 in August much weaker than the consensus of analysts' forecasts centred on a lift around of 750,000. The unemployment rate fell from 5.4% to 5.2%, in line with expectations. Average hourly earnings rose by 0.6% which was stronger than expectations centred on a lift of +0.3%. The ISM services index eased from 64.1 to 61.7 in August (survey: 61.5). After the report our CBA colleagues were of the view that the setback in the recovery in the labour market and the jump in serious infections will encourage the FOMC to wait before it announces it will taper its monthly asset purchases. It now seems more likely the FOMC will announce a tapering of its monthly asset purchases at its 3 November meeting rather than at this month's meeting.

**European sharemarkets** eased on Friday with the weak US jobs report weighing on retail and travel stocks. The pan-European STOXX 600 index fell by 0.6%. The German Dax index and the UK FTSE index both lost 0.4%. **New Zealand** shares edged 0.1% higher on Friday.

**US sharemarkets** were mixed on Friday. The disappointing lift in jobs in August raised concerns about the pace of economic recovery but stemmed calls for a paring back (or tapering) of bond purchases. Tech stocks rose but bank stocks fell. The Dow Jones index fell by 75 points or 0.2%. The S&P 500 index lost 1.5 points or less than 0.1%. But the Nasdaq index rose by 32 points or 0.2% to a record high. Over the week, the Dow fell 0.2%; the S&P 500 rose by 0.6%; and the Nasdaq rose by 1.6%.

**US longer-term Treasury** prices fell on Friday (yields higher) as traders focussed on the sharp lift in wages during August. US 10-year yields rose by 4 points to near 1.326%. For the week, US 10-year yields rose by 2 points. **NZ 10-year yields** are up over 10 basis points over the past week.

**On Friday the RBNZ announced** it is seeking views on its proposal to reduce risky mortgage lending by further reducing the amount of high Loan-to-Value Ratio (LVR) lending to owner-occupiers. The RBNZ proposes restricting the amount of lending banks can do above a LVR of 80% to 10% of all new loans to owner-occupiers, down from 20% at present.

**FX comment:** Major currencies were stronger against the US dollar in European and US trade. That's helped the NZD remain firmly above 0.7100 against the USD. The NZD starts the week trading just shy of 0.9600 against the AUD.

**Global oil prices fell** on Friday but were little changed over the week. Brent crude price fell by 0.6% to US\$72.61 a barrel. Over the week, Brent crude fell by US9 cents or 0.1%.

**Day ahead:** We expect Q1 building activity (building work put in place) to lift 1.7% - adding to the previous quarter's lift of 3.7%. Construction demand remains very strong, but capacity constraints in the construction sector could limit the ability of the sector to grow to meet this demand. We expect at 3% lift in residential building activity and a 0.5% fall in non-residential building activity. In Australia, the monthly inflation gauge and ANZ job advertisements data are issued. US financial markets are closed on Monday in observance of the Labor Day public holiday.

**Week ahead local:** The latest Global Dairy trade event takes place on Tuesday night. The Q2 economic survey of manufacturing is due Thursday and Electronic card transactions data are due Friday. **Week ahead offshore:** The Australian highlight will be tomorrow's RBA meeting. The RBA Board last month reaffirmed its intention to taper its bond purchases from the September meeting. We expect the RBA Board to reverse that decision and maintain the current \$A5bn per week pace. The European Central bank and the Bank of Canada meet this week. Both central banks are not expected to make any policy changes. On the data front, China's export figures (Tues) and inflation (Thurs) for August will print.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7152	0.0%	NZD/SEK	6.112	-0.1%	NZX WMP	3655.0	2.2%	Dow	35369	-0.2%
NZD/AUD	0.9598	-0.1%	NZD/DKK	4.477	-0.1%	Gold \$/o	1827.7	1.0%	S&P 500	4535	0.0%
NZD/EUR	0.6018	-0.2%	NZD/THB	23.2	0.0%	WTI Oil \$/b	69.3	-1.0%	NASDAQ	15364	0.2%
NZD/JPY	78.49	-0.1%	AUD/USD	0.7453	0.0%	<b>Money Market (%)</b>			FTSE	7138	-0.4%
NZD/GBP	0.5159	-0.1%	EUR/USD	1.188	0.1%	90 Day BB	0.48	-0.01	CAC-40	6690	-1.1%
NZD/CAD	0.8961	1.8%	USD/JPY	109.8	0.0%	OCR	0.25	0.00	DAX	15781	-0.4%
NZD/CHF	0.6535	-0.1%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	25902	-0.7%
NZD/HKD	5.558	0.0%	NZ	1.95	0.02	1yr	1.00	0.01	Nikkei	29128	2.0%
NZD/SGD	0.9597	0.0%	US	1.32	0.04	2yr	1.36	0.03	ASX200	7523	0.5%
NZD/CNH	4.605	-0.1%	Aust	1.23	0.02	5yr	1.74	0.04	NZX50	13289	0.0%

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