

ASB expects a November 2021 start to RBNZ OCR hikes and a 1.50% OCR endpoint

Our core economic view for NZ is closely aligned to the Australian view of our CBA colleagues. Yesterday did not disappoint, with events on both sides of the Tasman leaving market watchers with plenty to ponder.

First, NZ yields and the NZD firmed after the Q2 NZIER Quarterly Survey of Business Opinion provided further evidence that the demand side of the economy was doing just fine, capacity pressures and labour shortages were intensifying, with reduced resistance to firms pushing through price increases (see Jane's QSBO write-up [here](#) for details). **Emergency monetary policy support no longer looks necessary and ASB now expects OCR hikes from November this year (previously May 2022), with the OCR to peak at 1.50% from late 2023 (previously 1.25%).**

Second, Australian yields moved up following the RBA decision. The cash rate was held at 0.1%, but the RBA maintained the April 24 bond as the target bond for yield curve control and announced it will taper its bond buying programme from September (from AUD5bn to AUD4bn weekly). These were expected by our CBA colleagues who also alluded to the tweaks in the RBA's forward guidance hinting a slightly earlier timeframe to cash rate hikes (still 2024 though). Our CBA colleagues expect the RBA to exit yield curve control and raise the cash rate from November 2022, with the cash rate to peak at 1.25% in late 2023.

The return of US markets from their 4th of July break added a downbeat tone to markets. US stocks pared earlier losses, with the S&P500 weighed by falls for energy, materials and financial equities. European bourses were up to 1% lower in overnight trading, with 0.9% falls in the FTSE100 and Eurostoxx 50. The ASX 200 (-0.7%) and NZX 50 (-0.40%) joined the downward moves for most indices in the Asian session.

US Treasury markets clearly did not see the price action in antipodean markets with yields lower across the curve, with a flattening bias. US 10-year Treasury yields (1.36%, down 6bps) fell to their lowest level since February helped by the weaker tone of US data, lower oil prices and a limited supply available at this week's US Treasury auctions. European yields were lower overnight. By contrast, Australian Government bond yields closed 2 to 8bps higher with larger increase in the belly of the curve (3- to 7-year tenor). NZ swap yields were 3-8 bps higher, with outsized increases for shorter maturities yields for the 2-year swap (0.89%) at post-pandemic highs. **Local yields are set to retrace some of these moves today.**

Commodity prices were generally lower overnight, not helped by the strengthening USD. Prices from the GDT auction were down 3.6% on the last event, with prices for Whole Milk Powder down 3% to USD3,864 per metric tonne. It is still early days in the season, so we are sticking to our \$8.20kgms forecast for the 21/22 year. The earlier run-up in energy prices reversed, with near-term contract prices for Brent (USD 74.70 per barrel) and WTI (73.50) down 2-3% overnight.

Data wrap: The June US Services ISM (60.1) undershot expectations (mkt: 63.5), weighed by falling new orders (62.1) and employment (49.3). Prices paid remained elevated (79.5 versus 80.6). The Markit Services PMI was little changed at 64.6. Eurozone retail sales rebounded by slightly more than expected in May (+4.6% mom), whereas the July ZEW survey slipped (61.2 from 81.3). German May Factory Orders (-3.7% mom) and the July ZEW expectations survey were weaker than expected, whereas the +21.9 current situation reading from the ZEW was the strongest since January 2019. The UK construction PMI (66.3) was stronger than expected.

FX Comment: Relative interest rate differentials looked to be the key currency driver yesterday, pushing the NZD and AUD higher. This was pushed aside given by the broad-based strengthening of the USD overnight, with the USD and yen at the G10 currency standings overnight. The break in the kiwi above 71 US cents was short-lived, with the NZD dipping below 70 US cents this morning and trading towards the lower part of its 0.6990-7105 USD overnight range. The NZD has held onto most of its post-QSBO gains against the AUD (0.936 AUD). Our CBA colleagues expect limited upside to the USD in the coming quarters, before the greenback resumes its downward trend over 2022.

Day ahead: Nothing today locally or across the Tasman, with little on the global data calendar tonight. With central banks currently centre stage tomorrow morning's Fed Minutes (6am NZT) is the key event. Focus will be the views of the FOMC on tapering asset purchases. A signal that more members are considering it to be a timely date to discuss tapering could push Treasury yields higher. **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7015	-0.2%	NZD/SEK	6.031	0.4%	NZX WMP	3900.0	-0.1%	Dow	34564	-0.6%
NZD/AUD	0.9358	0.3%	NZD/DKK	4.411	0.2%	Gold \$/o	1797.5	0.3%	S&P 500	4343	-0.3%
NZD/EUR	0.5932	0.2%	NZD/THB	22.6	0.4%	WTI Oil \$/b	73.4	-2.4%	NASDAQ	14658	0.2%
NZD/JPY	77.60	0.2%	AUD/USD	0.7497	-0.4%	Money Market (%)			FTSE	7101	-0.9%
NZD/GBP	0.5083	0.2%	EUR/USD	1.183	-0.3%	90 Day BB	0.35	0.01	CAC-40	6507	-0.9%
NZD/CAD	0.8740	0.8%	USD/JPY	110.6	-0.3%	OCR	0.25	0.00	DAX	15511	-1.0%
NZD/CHF	0.6483	0.1%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28073	-0.3%
NZD/HKD	5.449	-0.1%	NZ	1.83	0.04	1yr	0.57	0.05	Nikkei	28643	0.2%
NZD/SGD	0.9451	0.0%	US	1.36	-0.07	2yr	0.89	0.07	ASX200	7262	-0.7%
NZD/CNH	4.544	0.2%	Aust	1.48	0.04	5yr	1.39	0.04	NZX50	12759	-0.4%

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