

A bob each way from the RBA

Risk appetite softened a little overnight. European equity markets closed 0.3-0.7% lower and US equities are trading a similar path, albeit with 'big tech' outperforming (NASDAQ +0.1%). The VIX index (a risk aversion proxy) is 1% higher around 17.5%, helping the 'safe-haven' USD catch a bid (+ 0.3%). The stronger USD has kept the downward pressure on the NZD following yesterday's RBA meeting. NZD/USD trades ½ cent lower just under 0.7100.

Newswires are doing their best to find a reason for the dour overnight mood (Fed tapering, slowing global growth, spreading delta etc.). But the reality is it's just the usual day-to-day chop. There was very little new news out overnight to change anyone's view of the world (see data wrap below).

Against a general expectation the RBA would walk-back its prior decision to taper bond buying, the Board in the event elected to have a bob each way. The taper will go ahead as planned (to \$A4b/week in September, from \$A5b), but the RBA will extend its A\$4b/week bond buying programme until "at least" February 2022 (prev. November 2021). As described by our CBA colleague Gareth Aird, the RBA preferred to extend the timeframe of bond buying rather than scale up from what was already announced.

The net effect for markets was marginally dovish: the AUD/USD lost just under ½ cent in the aftermath, while fixed interest yields were down only a couple of bps. Based on yesterday's decision and the expected path for the Aussie economy, CBA's base case is that the RBA tapers in February 2022 to a pace of \$A3bn per week until May 2022. Rate hikes are a 2023 story.

The NZ interest rate market, meanwhile, continues to dance to its own beat. Four days of case numbers around 20 and ex-Auckland NZ emerging from hard lockdown has investors convinced the RBNZ can deliver on its hawkish rhetoric with two rate rises before year-end. We concur and, indeed, market pricing of such is now effectively 100%. The two-year swap yield yesterday lifted 2bps, re-claiming the pre-delta outbreak high of around 1.38%. The long end also carved out a couple of fresh records. The NZ 10-year swap yield closed at the highest level since Feb 2021, with 10-year bond yields the highest since early 2019.

The GDT dairy auction early this morning was a good 'un. Wholemilk powder prices rose 3.3%, roughly in line with what futures prices were indicating. 'Fats' prices all lifted 3-4% and skim milk powder prices jumped a decent 7.3%. We continue to forecast a Fonterra Milk Price of \$7.90/kgms for the current season.

Data wrap: China's trade surplus widened more than expected in August with exports and imports up by 26%/y and 33%/y, respectively. The strong trade surplus (US\$58b vs. US\$53b expected) will partly offset weak domestic consumption and support Chinese growth in August. Germany's ZEW economic confidence index fell by more than expected in September, but German industrial production impressed in July (+1% vs. +0.8% expected). Bank of England official Saunders (who's been relatively hawkish) said any lift in rates next year will be "relatively limited".

Day ahead: Nothing whatsoever in the Asian time zone. Tonight, there'll be some focus on a speech from NY Fed President Williams for any hints on the Fed's tapering plans post Friday's soft employment report.

The Bank of Canada also meets. The Canadian economic rebound has lost steam recently, in part thanks to the spreading delta variant common to many countries. For this reason, the BoC is widely expected to hold the line on asset purchase tapering this meeting. Our cobbers at CBA expect the BoC's bond purchases to be slowed at the October meeting.

Author: mike.jones@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7095	-0.6%	NZD/SEK	6.100	-0.2%	NZX WMP	3700.0	1.2%	Dow	35100	-0.8%
NZD/AUD	0.9607	0.1%	NZD/DKK	4.456	-0.3%	Gold \$/o	1794.1	-1.6%	S&P 500	4520	-0.3%
NZD/EUR	0.5992	-0.3%	NZD/THB	23.2	0.1%	WTI Oil \$/b	68.4	-1.4%	NASDAQ	15374	0.1%
NZD/JPY	78.27	-0.1%	AUD/USD	0.7386	-0.7%	Money Market (%)			FTSE	7149	-0.5%
NZD/GBP	0.5147	-0.2%	EUR/USD	1.184	-0.2%	90 Day BB	0.52	0.02	CAC-40	6726	-0.3%
NZD/CAD	0.8976	0.4%	USD/JPY	110.3	0.4%	OCR	0.25	0.00	DAX	15843	-0.6%
NZD/CHF	0.6526	-0.1%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26354	0.7%
NZD/HKD	5.516	-0.5%	NZ	2.01	0.01	1yr	1.04	0.02	Nikkei	29916	0.9%
NZD/SGD	0.9551	-0.3%	US	1.37	0.05	2yr	1.38	0.00	ASX200	7530	0.0%
NZD/CNH	4.584	-0.3%	Aust	1.26	0.00	5yr	1.78	0.00	NZX50	13322	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	



<https://reports.asb.co.nz/index.html>

[@ASBMarkets](https://twitter.com/ASBMarkets)

ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland

Important Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.