

## NZD outperforms in otherwise quiet night

**Financial markets are still in weekend-mode for the most part.** There hasn't been much in the way of news & events to cover overnight. Overall risk sentiment remains healthy, with the weekend's passing of the US\$550b infrastructure bill through Congress and the positive results from Pfizer's COVID treatment pill both contributing.

**Bond and equity markets have consolidated.** US 10-year bond yields ground up a few bps to 1.48%, still some 20bps below their October highs. Share markets posted light gains as they hold around record highs – US sharemarket indices are up 0.1-0.5%.

**There was more action in commodity markets.** A positive night for energy (oil +0.7%) and metals prices (copper +0.8%) has emboldened commodity currencies, with the NZD sitting at the top of the overnight FX performance rankings. NZD/USD bounced back to around the top of its recent 0.7080-0.7180 range. NZD/AUD is up around ½ cent to 0.9650, and appears to be closing back in on its September highs near 0.9700.

**Declines in offshore yields in the wake of last week's push-back in global cash rate expectations have lifted the NZD's yield advantage over the rest of the world.** Interest rate differentials to the UK, US, and Australia have all widened, in some cases to multi-year highs. This sets the stage for additional NZD outperformance over the weeks ahead in our view. For NZD/USD this week, we suspect support will be found on any dips into the 0.7050/0.7060 support window. Short-term resistance is eyed at 0.7200, with a break above this level clearing the way for a strop up to 0.7300.

**Fed officials are back out in force following last week's policy announcement.** Vice chair Clarida said overnight that he sees the conditions for increasing the Fed Funds rate being met by the end of 2022, while the more hawkish St Louis Fed President Bullard was more of a mind to play up upside inflation risks. He said action may be required sooner to keep inflation under control and that he has two rate hikes pencilled in for 2022. There was little market reaction to either.

**As widely expected, the NZ Government announced an easing in lockdown restrictions for Auckland** from midnight tonight (Step 2 of Alert Level 3). Allowing parts of the Auckland retail sector to reopen will provide a boost to the sector, particularly as we're fast moving into the seasonal peak for spending. However, many hospitality and service operators (e.g. hairdressers) will remain closed until the traffic light system comes into force around the end of November.

**Day Ahead:** Second-tier stuff. We expect a big 10% lift in September NZ retail card spending numbers, to be released today at 10:45am. That's based off our own internal card spending data and the weekly MBIE spending updates. Across the Tasman, business confidence figures for October are expected to benefit from the recent economic reopening and associated rebound in consumer spending. Nothing of note offshore.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7168	0.8%	NZD/SEK	6.146	0.7%	NZX WMP	4010.0	0.2%	Dow	36420	0.2%
NZD/AUD	0.9654	0.4%	NZD/DKK	4.601	0.5%	Gold \$/o	1825.8	0.4%	S&P 500	4702	0.1%
NZD/EUR	0.6185	NA	NZD/THB	23.6	-0.2%	WTI Oil \$/b	81.6	0.4%	NASDAQ	16011	0.3%
NZD/JPY	81.16	0.7%	AUD/USD	0.7425	0.4%	<b>Money Market (%)</b>			FTSE	7300	0.0%
NZD/GBP	0.5287	0.3%	EUR/USD	1.159	0.3%	90 Day BB	0.82	0.01	CAC-40	7047	0.1%
NZD/CAD	0.8925	NA	USD/JPY	113.2	-0.2%	OCR	0.50	0.00	DAX	16047	0.0%
NZD/CHF	0.6546	NA	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	24764	-0.4%
NZD/HKD	5.580	NA	NZ	2.55	-0.02	1yr	1.57	0.00	Nikkei	29507	-0.4%
NZD/SGD	0.9659	0.6%	US	1.49	0.04	2yr	2.18	-0.02	ASX200	7452	-0.1%
NZD/CNH	4.578	0.5%	Aust	1.76	-0.06	5yr	2.59	-0.01	NZX50	13041	0.0%

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