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ASB

US Senate passes USD1 trillion infrastructure package

The prospect of continued policy stimulus provided a mild boost to markets overnight. The US Senate passed a USD1 trillion bi-partisan infrastructure bill (69-30) after months of gridlock. It paves the way for Democrats to focus on getting through a much larger USD3.5 trillion package that they could push through without Republican support. The final package could be a number of months away and there are concerns over what this could do to the US fiscal position.

A period of volatility beckons as markets try to distinguish between growth-supportive factors and possible growth suppressants. There are growing concerns over the rapid spread of the delta variant, with the latest outbreak in China expanding, new COVID cases in the US surging to the highest weekly level since February, and Australia struggling to contain the latest outbreak. NZ looks to be riding its luck to date, with no confirmed cases after a number of close calls.

Fed speak: US yields were pressured higher after St Louis Fed president Bullard (2022 voter) toed a similar line to those of Atlanta Fed President Bostic the night before. In Bullard's view the Fed had underestimated the economy's pace of improvement and that it could soon to start to taper its USD120bn in monthly asset purchases, suggesting a full phaseout by March next year. There was little market reaction from comments by Cleveland Fed President Mester (2022 voter) on US inflation dynamics with the key message of the speech being it is still too early to know if the pandemic has changed the inflation process.

Global equity indices were generally in the black, with strong corporate earnings seeing the S&P500 hover around record highs, with lifts for energy offsetting falls for technology stocks. Falls in the Nasdaq bucked the improving trend elsewhere. Strong corporate earnings boosted European stocks with stocks higher in the Asian session. **Oil and broader energy prices rebounded** on confidence that the global economy will be able to weather the latest delta variant outbreak.

US Treasury yields continued to grind higher (10Y 1.34%, +2bps), led by the mid-part of the curve as markets continued to ponder the eventual reduction in monetary policy stimulus. European yields were little changed and remain well below NZ levels**.** NZ yields were marginally higher yesterday, whereas COVID-19 concerns pressured Australian yields lower, with a 60bp gap between NZ (1.80%) and Australian 10-year bond yields (1.19%). Both started the year at around 1.00%!

There were minimal data out overnight. The ZEW survey for Germany showed a more modest than expected increase in assessment of the current situation (29.3 versus 21.9 prior) and a more sizeable scaling back in expectations (40.4 from 63.5) as did the expectations gauge from the Eurozone (42.7 from 61.2).

NZ July card spending advanced at 0.6% monthly rate for retail, with total spending up 0.9%. This marked the fifth consecutive monthly increase, with growth in the three months to July accelerating to a 7% quarterly rate for total card spending, the strongest pace since the September 2020 rebound. **The RBNZ needs to reduce policy support to prevent further overheating and we expect 75bps of OCR hikes by the end of the year.**

Developments across the Tasman don't seem quite as rosy, with delta variant cases in New South Wales (356 new cases yesterday) climbing and suggesting no imminent end to the Sydney lockdowns. Weaker sentiment measures portend an economic hit, with the July NAB survey showing a sharp fall in business confidence (-19 points to a 12-month low of -8) and business conditions (-14 points to +11.4, the lowest for 2021). Weekly ANZ consumer confidence fell to a 2021 low (98.6). Our CBA colleagues expect the near-term outlook for Australian economic activity to be poor but expect a late 2021 recovery on lifting vaccination rates.

FX comment: Modest moves for global currency markets, with the CAD, AUD and NZD the standouts, the USD mid-table and the yen, Swiss franc, euro and sterling towards the bottom of the G10 currency table overnight. The NZD moved above 70 US cents overnight and is currently towards the top of its 0.6970 – 0.7010 overnight range. The NZD ground higher to 0.954 AUD. We expect the NZD to trade in reasonably tight ranges over the next few days, with few imminent catalysts to trigger bigger moves.

Day ahead: Quiet locally, with August Westpac monthly consumer confidence for Australia likely to weaken. US July CPI highlights a quiet session for data, with annual core CPI inflation expected to moderate to a still-elevated 4.3% from 4.5%. German July CPI is also out (mkt: 3.8% yoy). There are a few speeches by Fed policymakers (Logan, Bostic, George) that could attract some market headlines. **Author:** **mark.smith4@asb.co.nz**

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7007	0.3%	NZD/SEK	6.104	0.3%	NZX WMP	3550.0	-0.8%	Dow	35248	0.4%
NZD/AUD	0.9534	0.0%	NZD/DKK	4.447	0.4%	Gold $/o	1728.6	-0.1%	S&P 500	4436	0.1%
NZD/EUR	0.5979	0.4%	NZD/THB	23.4	0.2%	WTI Oil $/b	68.3	2.7%	NASDAQ	14784	-0.5%
NZD/JPY	77.47	0.3%	AUD/USD	0.7348	0.2%	**Money Market (%)**			FTSE	7161	0.4%
NZD/GBP	0.5064	0.3%	EUR/USD	1.172	-0.2%	90 Day BB	0.67	0.02	CAC-40	6820	0.1%
NZD/CAD	0.8777	-0.3%	USD/JPY	110.6	0.2%	OCR	0.25	0.00	DAX	15771	0.2%
NZD/CHF	0.6466	0.5%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	26606	1.2%
NZD/HKD	5.453	0.2%	NZ	1.81	0.01	1yr	1.07	0.03	Nikkei	27888	0.2%
NZD/SGD	0.9523	0.4%	US	1.35	0.02	2yr	1.29	0.02	ASX200	7563	0.3%
NZD/CNH	4.546	0.4%	Aust	1.21	0.00	5yr	1.62	0.01	NZX50	12764	0.0%

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