

Getting delta bad hand?

With little major data out, geopolitical and pandemic headlines have been the key developments overnight. President Biden is in Brussels for the NATO summit with America's key security partners. For the first time on record, the alliance has declared China a security risk. NATO Secretary General Jens Stoltenberg was keen to emphasise China was "not an adversary," but the developments do highlight the risk of an escalation in global trade tensions. For the most part, the weekend's G7 summit seems to have been well received, with the Biden administration keen to assert an image of unity and old school diplomacy after the drama that marked Trump era summits.

New research is also casting a light on the 'delta' COVID variant. Over the weekend, the [New York Times](#) desk in China reported that patients appear to be getting sicker more quickly and more severely than with previous instances of the virus, following on from similar stories in other jurisdictions. The delta variant accounts for the vast majority of new UK cases, and the government was concerned enough to delay its reopening plans by four weeks. Analysis from [Bloomberg](#) suggests that a single vaccine dose is less effective against the delta variant than previous variants (though two doses of the Pfizer vaccine still provides 88% protection). **We caution we are not epidemiologists, but the headlines do introduce a risk that the NZ border will stay largely shut for longer, with all the attendant implications on the economic outlook that brings.**

Treasury yields lifts noticeably overnight, with the curve steepening. As at the time of writing, the 10-year yield had unwound some of last week's fall, reaching 1.497%. Investors will be mulling the prospect of further hints from the Fed around the timetable for tapering ahead of Thursday's meeting. Overnight, JP Morgan CEO Jamie Dimon became the latest to hitch his colours to "inflation is here to stay" bandwagon, saying the Bank was stockpiling cash as a hedge.

Equities have been mixed overnight. At the time of writing, the Dow and S&P500 had eased 0.50% and 0.21% respectively, while the strength in tech shares helped the Nasdaq lift 0.38%. Note that some benchmarks (notably the S&P500) hit all-time highs last week, so a few small dips aren't the end of the world. Sharemarkets were mostly higher across Europe.

Once again Bitcoin has been the most dramatic mover overnight. The cryptocurrency lifted sharply after comments by a major head fund manager that it was a "good portfolio diversifier". It since pared back some of those gains but remains up 5% over the session.

Local recap: A quiet start to the NZ week yesterday, with relatively modest market moves. There were modest nudges up in local bond yields, and a small downward shift in equities. We also had a couple of second-tier local data releases, with the May Performance of Services Index still well in expansionary territory but easing back a bit from April. With Aussies off on holiday celebrating the birthday of Her Maj, markets were closed and there were no major data out down under.

FX comment: Relatively tight ranges overnight, but commodity currencies gained, while traditional safe haven currencies like USD and JPY underperformed. NZD was one of the stronger performers overnight, notching up gains against all of the G10 except for the NOK (which is benefitting from a two-year high in oil prices). The NZD/USD is sitting at around 0.714 (though still short of where it was for most of last week), while NZD/AUD is around 0.926.

Day ahead: The latest REINZ house price data is out at 9am today, providing another clue on the direction of the housing market following the government's tax changes. The only other local release is food price data out at 10.45 from Stats NZ. Aussie has some house price data of its own, as well as the latest RBA minutes from its last meeting, both at 1.30pm NZT. There's a US data dump in the small hours of the morning, with the highlights being the latest retail sales (mkt: -0.6% mom), producer prices (mkt: +0.5% mom) and industrial production (mkt: +0.6% mom). We've also got the latest GlobalDairyTrade auction, where the futures market expects prices to remain flat – we see some risk of a slightly larger downward move but expect prices to remain supported.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7142	0.1%	NZD/SEK	5.944	0.1%	NZX WMP	4090.0	-0.2%	Dow	34394	-0.2%
NZD/AUD	0.9261	0.0%	NZD/DKK	4.382	0.0%	Gold \$/o	1866.2	-0.6%	S&P 500	4247	0.0%
NZD/EUR	0.5893	0.0%	NZD/THB	22.2	0.2%	WTI Oil \$/b	70.9	0.0%	NASDAQ	14174	0.7%
NZD/JPY	78.61	0.1%	AUD/USD	0.7712	0.1%	Money Market (%)			FTSE	7147	0.2%
NZD/GBP	0.5063	0.1%	EUR/USD	1.212	0.1%	90 Day BB	0.32	0.00	CAC-40	6616	0.2%
NZD/CAD	0.8674	-0.1%	USD/JPY	110.1	0.4%	OCR	0.25	0.00	DAX	15674	-0.1%
NZD/CHF	0.6425	0.2%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28842	0.4%
NZD/HKD	5.544	0.1%	NZ	1.65	0.01	1yr	0.36	0.00	Nikkei	29162	0.7%
NZD/SGD	0.9474	0.1%	US	1.49	0.04	2yr	0.52	0.00	ASX200	7312	0.1%
NZD/CNH	4.576	0.0%	Aust	1.50	0.00	5yr	1.17	0.01	NZX50	12562	0.1%

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