

Lockdown diaries day...whatever

A small downside miss on August **US inflation** figures has been the most notable event in markets overnight. The seemingly outsized impact of the 0.1% miss shows just sensitive markets are to inflation at present.

August CPI inflation printed at 0.3%*m/m* (0.4% expected), bringing the annual rate of inflation down only a touch to 5.3%. Core inflation (proxied by ex-food & energy) measure was also a touch lower than market expectations at 4.0%, from a 30-year high of 4.3%. To us, this was all well within the normal range of data surprises and seems unlikely to shift the Fed off its stated course to taper asset purchases in November.

US 10-year treasury yields lost around 5bps following the data (1.28%). The USD was also briefly punished. USD selling saw the AUD/USD and NZD/USD briefly squeezed up to overnight highs around 0.7360 and 0.7145, respectively. However, the antipodean currencies both went on to shed over ½ cent over the remainder of the night as the USD recovered its poise. This looks to be a classic ‘risk-off’ story with US equity markets under pressure late in the session (S&P500 -0.7%).

Some dovish chat from **RBA Governor Lowe** yesterday provided the fuel for NZD/AUD to poke its nose above 0.9700 overnight – a fresh 18-month high. There wasn’t anything particularly new in the speech, but Lowe did take the opportunity to push back on Aussie cash rate expectations. Lowe warned that expectations of RBA cash rate hikes in 2022 and 2023 are “difficult to reconcile” to the RBA’s view of the world.

There was little in the way of new information in the speech with the Governor instead reiterating some key messages. Governor Lowe remains puzzled at market pricing of rate hikes being brought forward. One consistent view of the RBA through the pandemic has been the 2024 rate hike timeline. While some may challenge that view on the basis of their own expectations, getting to consistent inflation at the mid-point is still a challenge. The Governor did hose down cash rate expectations, sticking to the message that hikes are unlikely until 2024 at the earliest.

August REINZ housing data confirmed the property market largely took August’s shift up in Alert Levels in its stride. House sales predictably slumped. But the fact sales fell ‘only’ 17% *m/m* despite just under half of the month being spent in full lockdown is testament to the ongoing strength of housing demand, as well as the increased ability of the industry to shift online.

The REINZ House Price Index increased another 2% in August, lifting the annual percent change to 31.1%. It increasingly looks like the market reaccelerated from July once it had adjusted to the investor tax changes. This aligns with our top-of-market house price inflation forecasts (+22% calendar 2021), but it will be of high concern to the RBNZ. It furthers the case for the OCR to be lifted, and soon. More macroprudential measures are also likely (LVR tightening, DTIs introduced).

Day ahead: The consensus expects NZ’s current account deficit widened from 2.2% of GDP to 3.3% in Q2 (data 10:45am). This is still suitably low enough in the context of history to be of little concern for markets.

There’ll be more interest in August Chinese activity data. Our CBA colleagues expect the data to disappoint given Chinese social distancing restrictions will add to the downward pressure on the already slowing growth momentum. Industrial production growth is expected to 6%*y/y* with retail sales growth picked to decelerate to 7% *y/y*.

Tonight, we get inflation updates out of the UK and Canada. Higher readings are expected in both as the global reflation wave continues to spread (headline inflation expectations UK: 2.9%, CA: 3.9%). **Author:** mike.jones@asb.co.nz

Currencies			Commodities			Equities					
NZD/USD	0.7094	-0.3%	NZD/SEK	6.103	-0.3%	NZX WMP	3750.0	0.0%	Dow	34578	-0.8%
NZD/AUD	0.9689	0.4%	NZD/DKK	4.468	-0.3%	Gold \$/o	1804.7	0.6%	S&P 500	4440	-0.7%
NZD/EUR	0.6008	-0.2%	NZD/THB	23.4	-0.1%	WTI Oil \$/b	70.5	0.0%	NASDAQ	15038	-0.4%
NZD/JPY	77.79	-0.6%	AUD/USD	0.7321	-0.6%	Money Market (%)			FTSE	7034	-0.5%
NZD/GBP	0.5137	-0.1%	EUR/USD	1.181	0.0%	90 Day BB	0.53	0.01	CAC-40	6653	-0.4%
NZD/CAD	0.9002	0.0%	USD/JPY	109.7	-0.3%	OCR	0.25	0.00	DAX	15723	0.1%
NZD/CHF	0.6525	-0.6%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	25502	-1.2%
NZD/HKD	5.518	-0.3%	NZ	1.93	-0.04	1yr	1.06	0.02	Nikkei	30670	0.7%
NZD/SGD	0.9533	-0.2%	US	1.28	-0.05	2yr	1.39	0.01	ASX200	7437	0.2%
NZD/CNH	4.565	-0.3%	Aust	1.26	-0.02	5yr	1.79	0.01	NZX50	13109	0.0%

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