

## All eyes on the CPI

**Market sentiment has been mixed overnight, with the key headlines once again coming from Washington DC.** Fed Chair Jerome Powell has been continuing his mammoth two-day congressional gabfest, talking to the grandees of the US Senate overnight. Powell has continued to press the dovish message in his comments, acknowledging inflation expectations have galloped up faster than the Fed expected, but emphasising it's still too early for the bank to begin scaling back stimulus.

**The bond market looks to have taken Powell's comments to heed, with yields falling across the curve with a flattening bias.** As at the time of writing, the 10-year Treasury yield sits around 1.296%, its lowest level since the beginning of March. European bonds have been a bit more interesting overnight, with UK yields up following comments from the BoE's Michael Saunders that it might be time to start withdrawing stimulus soon.

**Equities have been decidedly mixed overnight.** On Wall Street, the Dow is up around 0.10%, but the S&P500 is 0.45% lower and the Nasdaq down 0.80%, with tech shares underperforming. European equities have fallen across the board. Bloomberg analysts cite anxiety around growth as a driver (given the falls have been driven by growth-favourites like Amazon and Google), but note that many share indices still aren't far off record highs.

**There have been a few morsels of data out overnight.** The latest labour market readings have come out in the UK, with unemployment rate sitting at 4.8% vs market expectations of 4.7%. Weekly US jobless claims were broadly in line with expectations around 360k, while industrial production undershot a shade (+0.4% mom vs mkt: +0.6%).

**Local recap:** There were few eye-catching headlines yesterday, with markets still digesting the RBNZ's hawkish turn on Wednesday. The key NZ 2-year swap yield continued to climb, comfortably holding above the 1% mark. Shorter term NZ bond yields also continued their climb. NZD gave up some of its gains against the USD and but remains north of its pre-RBNZ range. The only trans-Tasman data came from Australia, where June employment growth (+29.1k vs mkt: +20.0k) and the unemployment rate (4.9% vs mkt: 5.1%) bested expectations, noting the outlook has since been clouded by Sydney's troubling COVID outbreak.

**Yesterday also saw the release of a glut of Chinese data.** GDP growth, retail sales and industrial production readings were all better than, or in line with expectations. The result follows on from Chinese trade earlier in the week that was similarly resilient, easing concerns of a sharp economic slowdown in NZ's biggest trading partner.

**FX Update:** The softer tone overnight has seen the 'safe-haven' USD and JPY perform well, while falls in oil and energy prices have seen the commodity currencies AUD, CAD and NOK move lower. In line with that trend, the NZD/USD has given up some of its post-RBNZ gains (trading around 0.697), while NZD/AUD is trading largely sideways (around 0.940).

**Day ahead:** The big highlight today is the Q2 CPI NZ reading out at 10am – a closely watched release as it gets closer and closer to crunch time for the RBNZ. Our forecasts sit at +0.8 qoq and +2.8% (above consensus and the RBNZ's own pick), but there is a clear upside risk to that forecast and an annual reading north of 3% remains a live possibility. While it's the medium-term inflation outlook that's really key, a, upside surprise will support our view the first OCR hike of the cycle will come as soon as August. With capacity stretched and cost pressures on the rise, we expect higher NZ inflation to persist over 2021 and 2022.

The big overnight highlights in the US include the latest monthly US retail sales data for June (mkt: -0.4% mom) as well as the latest Michigan Uni Sentiment readings. CPI data is the big headline in Europe (survey: +1.9 yoy).

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6977	-0.9%	NZD/SEK	6.048	-0.3%	NZX WMP	3725.0	-0.1%	Dow	34966	0.1%
NZD/AUD	0.9403	0.0%	NZD/DKK	4.394	-0.6%	Gold \$/o	1828.4	0.0%	S&P 500	4358	-0.4%
NZD/EUR	0.5908	-0.7%	NZD/THB	22.8	-0.6%	WTI Oil \$/b	72.0	-1.6%	NASDAQ	14530	-0.8%
NZD/JPY	76.62	-0.6%	AUD/USD	0.7420	-0.8%	<b>Money Market (%)</b>			FTSE	7012	-1.1%
NZD/GBP	0.5049	-0.6%	EUR/USD	1.181	-0.2%	90 Day BB	0.41	0.02	CAC-40	6493	-1.0%
NZD/CAD	0.8794	-0.1%	USD/JPY	109.8	-0.1%	OCR	0.25	0.00	DAX	15630	-1.0%
NZD/CHF	0.6406	-0.5%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	27996	0.8%
NZD/HKD	5.419	-0.9%	NZ	1.75	0.00	1yr	0.76	0.03	Nikkei	28279	-1.2%
NZD/SGD	0.9452	-0.8%	US	1.30	-0.05	2yr	1.04	0.04	ASX200	7336	-0.3%
NZD/CNH	4.509	-0.6%	Aust	1.29	-0.05	5yr	1.48	0.02	NZX50	12671	-0.4%

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