Daily Alert
New Zealand Edition

16 September 2021

Sentiment see-saws

The defensive tone following yesterday's weaker than expected Chinese data (see below) paved the way to a modest rebound in sentiment in the US session on reduced fears of a global slowdown. The delta variant is proving to be a difficult nut to crack but reports from US and Israeli studies that a 3rd Pfizer booster shot was up to 95% effective in maintaining immunity supported optimism. NZ looks to have hit the jackpot with its vaccine selection. Although Auckland is doing well in its efforts to contain the outbreak (14 new cases were reported yesterday), a long road lies ahead and the economic costs from the lockdown continue to mount.

Markets have remained highly sensitive to inflation signals, with a jump in sterling and UK yields after UK inflation surged to a 9-year high in August (3.2% yoy versus mkt: 2.9% yoy), with core inflation (3.1% yoy) the highest in a decade. The strong CPI print for Canada (4.1% yoy versus mkt: 3.9% yoy) boosted the Canadian dollar and drove outsized gains in Canadian yields. We have been keeping an eye on inflation indicators for NZ, and these remain firmly north, with NZ annual CPI inflation on track to crack 4.5% by the end of this year.

Global equities were a mixed bag. The major US indices were up close to 1% on their open, with market volatility cooling according to the VIX index. Canadian stock indices were also higher. European stocks did not get the memo and continued to head lower, likely spooked by higher UK inflation. Stocks were lower in the Asian session with heavier falls in Chinese equities. **Commodity prices were generally helped by the lower USD index and the swing in risk sentiment**, with near-term contract prices for oil at 6-week highs on lower US crude stockpiles.

Treasury yields ground 1-2bps higher with a curve-steepening bias (10Y 1.30%). Likely related to the higher UK inflation print, European yields 10-year government bond yields were 3-5bps higher (UK = 0.78%, Ger = -0.35%). Yesterday was mixed for NZ rates, with falls in NZ Government bond yields outpacing global counterparts (10Y 1.85%). NZ swap yields actually crept a little higher. Market pricing for OCR hikes firmed a touch, with 29bps of hikes priced in for October, 53bps for November and 75bps for February 2022. Australian yields were lower (10Y 1.21%).

The NZD briefly dipped following weaker Chinese August data. Tightening COVID restrictions slowed retail trade growth to 2.5% yoy (mkt: 7% yoy), the lowest in year. Industrial production (+5.3% yoy, mkt: 5.8% yoy), and ex-rural fixed asset investment (8.9% yoy, mkt: 9.0% yoy) all slowed. Our CBA colleagues expect the pace of growth to slow, and for the People's Bank of China to cut the Required Reserve Ratio by 50bps by the end of the year. With policymakers' 6% growth target for 2021 still achievable, policy interest rate cuts are expected to be left on hold.

There was little market reaction to NZ data that showed a modest widening in the annual current account deficit to 3.3% of GDP in the June 2021 quarter, bang in line with the forecast consensus, and still off the radar screen of the ratings agencies and global markets.

FX Update: Improved risk sentiment pushed the USD lower, although the weaker RMB also generally weighed on the kiwi, with the NOK and CAD at the top of the G10 currency pile. The NZD had edged above US 71 cents and traded in a 0.7080 to 0.7120 USD range overnight. The kiwi traded in tight ranges against the AUD and could easily push above 97 Australian cents today. Broad-based NZ commodity strength (see our latest commodity report here), and a sizeable yield advantage remain key NZD supports.

Day ahead: Busy. It may be firmly in the rear vision mirror, but Q2 NZ GDP will likely capture the odd market headline and cause a few market ripples. ASB expects a solid 1.5% qoq Q2 print (mkt: 1.1% qoq), although a sharp drop is expected for Q3. Our CBA colleagues expect a massive 300k August fall in Australian employment (mkt: 80k) given lock-induced job losses, but note uncertainty is high. At just after 2pm NZDM tenders $500m of the 2026, 2028 and 2033 bonds. Another fall in US August retail sales is expected given rising COVID-19 infections and fading fiscal stimulus, with jobless claims data also out tomorrow morning. **Author**: mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7104	0.1%	NZD/SEK	6.097	-0.1%	NZX WMP	3700.0	-1.3%	Dow	34841	0.7%
NZD/AUD	0.9691	0.0%	NZD/DKK	4.473	0.1%	Gold $/o	1793.1	-0.6%	S&P 500	4483	0.9%
NZD/EUR	0.6014	0.2%	NZD/THB	23.4	-0.1%	WTI Oil $/b	72.6	3.1%	NASDAQ	15158	0.8%
NZD/JPY	77.71	-0.1%	AUD/USD	0.7330	0.1%	**Money Market (%)**			FTSE	7016	-0.2%
NZD/GBP	0.5133	-0.1%	EUR/USD	1.181	0.0%	90 Day BB	0.54	0.01	CAC-40	6584	-1.0%
NZD/CAD	0.8976	2.0%	USD/JPY	109.4	-0.3%	OCR	0.25	0.00	DAX	15616	-0.7%
NZD/CHF	0.6533	0.1%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	25033	-1.8%
NZD/HKD	5.529	0.2%	NZ	1.85	-0.09	1yr	1.07	0.01	Nikkei	30512	-0.5%
NZD/SGD	0.9527	-0.1%	US	1.30	0.02	2yr	1.41	0.02	ASX200	7417	-0.3%
NZD/CNH	4.567	0.1%	Aust	1.21	-0.05	5yr	1.77	0.01	NZX50	13099	0.0%

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