

Taking the edge off

A softer-than-expected slug of Chinese activity data out yesterday has seen investors start the week in a more cautious frame of mind. It adds to the perception we might be close to ‘peak growth’ in the global economy with the spreading delta variant taking the edge off economic forecasts (which still look very healthy on the whole).

European equity markets slipped 0.3-0.9%, while their US counterparts are having a slightly better time of it with the Dow and S&P creeping into positive territory as we write (S&P500 +0.1%). A lift in the VIX (so-called “fear gauge”) to 16.5% from below 15.5% confirms the modest ‘risk-off’ vibe. Global commodity prices are mostly lower while bond yields have drifted down a few bps (US 10-year Treasury yield 1.25% from 1.28%).

All three monthly Chinese activity indicators weakened by more than expected in July (retail sales +8.5% yoy, industrial production 6.4%, and asset investment 10.3%). This thanks to some extreme weather and the social distancing measures rolled out to help contain the virus. Our friends at CBA have consequently nudged down their 2021 Chinese GDP forecasts to 8.4% from 8.6%. This is based on an assumption the Government eases restrictions from late August.

The data were another blow for the AUD, with the headwinds facing the Chinese outlook adding to Australia’s domestic growth risks. The currency’s fall from 0.7360 to around 0.7330 set the stage for a mild sell-off in the CAD and NZD, the AUD’s commodity currency partners in crime.

Still, the NZD/USD has managed to keep its head above 0.7000 though (0.7020 currently), with NZD/AUD once again taking some of the strain. The cross made a fresh 8-month high around 0.9590 this morning but has since eased off 30-40 pips. Note that our short-term valuation model estimates a 0.9170-0.9570 ‘fair-value’ range in NZD/AUD, but we wouldn’t be surprised to see it trade above 0.9600 for a time.

Economic data/events overnight have been thin on the ground. The only release of any note, the New York ‘Empire’ manufacturing index did nothing to soothe the growth fears. The headline index fell sharply from 43 – a record high – to 18.3, well below the 28.5 expected. A good chunk of the fall reflects the global supply constraints now being felt the world over, rather than a drying up of demand.

The NZ Performance of Services index slipped to 57.9 in July, from 58.4 in June. This should still be seen as a strong result. It was the fifth consecutive result north of 50.0 (the level indicative of expansion in the sector) and miles above the 53.9 long-run average. The new orders component of the survey printed at a sky-high 63.2, yet another sign demand is outstripping the economy’s potential to supply. On the latter, respondents noted ongoing challenges with shortages, shipping delays and freight costs.

Day ahead: There’s just the RBA Board Minutes to look forward to in this part of the world. And even then their thunder has likely already been stolen by Friday’s Statement on Monetary Policy and Governor Lowe’s parliamentary testimony. Our CBA colleagues remain of the view the RBA’s forecasts are too optimistic. Tonight brings US retail sales for July (-0.2% expected), with Fed chair Powell speaking at a ‘town hall discussion with educators’ early tomorrow morning.

Author: mike.jones@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7022	-0.3%	NZD/SEK	6.076	-0.2%	NZX WMP	3500.0	-0.1%	Dow	35625	0.3%
NZD/AUD	0.9570	0.2%	NZD/DKK	4.434	-0.1%	Gold \$/o	1787.3	0.4%	S&P 500	4475	0.1%
NZD/EUR	0.5963	-0.1%	NZD/THB	23.4	-0.2%	WTI Oil \$/b	67.3	-1.7%	NASDAQ	14794	-0.2%
NZD/JPY	76.72	-0.7%	AUD/USD	0.7338	-0.4%	Money Market (%)			FTSE	7154	-0.9%
NZD/GBP	0.5075	-0.2%	EUR/USD	1.178	-0.2%	90 Day BB	0.67	0.01	CAC-40	6839	-0.8%
NZD/CAD	0.8828	0.1%	USD/JPY	109.3	-0.4%	OCR	0.25	0.00	DAX	15926	-0.3%
NZD/CHF	0.6407	-0.8%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26181	-0.8%
NZD/HKD	5.466	-0.3%	NZ	1.82	-0.02	1yr	1.10	0.02	Nikkei	27523	-1.6%
NZD/SGD	0.9520	-0.2%	US	1.26	-0.02	2yr	1.36	0.03	ASX200	7582	-0.6%
NZD/CNH	4.547	-0.1%	Aust	1.16	-0.06	5yr	1.69	0.03	NZX50	12720	0.0%

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657	
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661	
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915	
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5720	
Publication and Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660	



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ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland

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