

Inflation concerns

The 1.3% lift in the NZ consumer price index over the second quarter of the year was much stronger than ASB, RBNZ and market expectations. Both tradable and non-tradable CPI prices were much, much firmer than RBNZ expectations. Annual inflation is now running at 3.3%. Furthermore, annual inflation from the core measures surged above 3% and looks set to move higher. Looking ahead, we expect annual headline inflation to approach 4% in the second half of this year, with the risk that high inflation outcomes persist well into 2022. OCR hikes are coming very soon. You can read our full report [here](#).

The Bank of Japan made no policy or forward guidance changes and introduced a new fund provisioning measure to support private financial institutions' various efforts in fields related to climate change. The BoJ's projected rate of increase in the CPI for fiscal 2021 is higher, mainly due to higher energy prices. Real GDP growth for fiscal 2021 is slightly lower due to the impact of COVID 19, but that for fiscal 2022 is higher.

The UK House of Lords economic affairs committee said the Bank of England has struggled to explain why it believes higher inflation will be a short-term phenomenon, and why continuing with asset purchases is the right course of action. The House of Lords' conclusion comes on the heels of two Monetary Policy Committee members turning hawkish (Michael Saunders and Deputy Governor Dave Ramsden).

In US economic data, retail sales rose by 0.6% in June (a decline of 0.4% was expected). Business inventories rose by 0.5% in May as expected. Consumer sentiment fell from 85.5 to 80.8 in July (survey: 86.5).

European sharemarkets were weaker on Friday. Reuters reported "that the mining index slumped 2.8% as Rio Tinto slipped 3.4% after reporting a 12% fall in quarterly iron ore shipments ahead of earnings", dragging other big names such as BHP and Glencore 1.5% and 3.5% lower respectively. Rising Covid-19 infections also weighed on investor minds. The pan-European STOXX 600 index fell by 0.3%. The German Dax index fell by 0.6% while the UK FTSE fell by 0.1%.

US sharemarkets were weaker on Friday. Technology shares fell while defensive real estate and utilities sectors rose. Shares in Amazon fell by 1.6% and shares in Nvidia fell 4.3%. Investors were worried by the rising number of Covid-19 Delta variant cases. Shares in Moderna rose by 10.3% on news that the stock will be included in the S&P 500 index. The Dow Jones index fell 0.9%. The S&P 500 index and the Nasdaq lost 0.8%. Over the week the Dow Jones fell by 0.5%; the S&P 500 lost 1.0%; and the Nasdaq fell by 1.9%. **The NZ sharemarket** was flat on Friday, and down 0.1% over the week.

US treasuries were flat on Friday. Better-than-expected retail sales results were balanced against rising global Covid-19 case numbers. US 10-year yields were steady near 1.30%. Over the week, US 10-year yields fell by 6 points while US 2-year yields rose by 1 point. **The NZ 10-year Government bond** was trading with a yield around 1.64% on Friday, up 10 basis points for the week.

FX Update: NZD/USD recovered above 0.7000 and NZD outperformed on the crosses in the wake of the strong CPI data on Friday. NZD/AUD lifted above 0.9450, with the differing outlook for the RBNZ and RBA supporting the cross rate.

Day ahead: The Business NZ Performance of Services index is due today. **Week ahead local:** The only event of note this week is the Global Dairy Trade event on Tuesday night. Week ahead offshore: the highlight is the European Central Bank meeting on Thursday. The ECB is widely expected to make no policy changes. But in line with the Bank's new monetary policy strategy, the policy interest rate forward guidance will be adjusted to reflect the symmetric 2% inflation target and tolerance for inflation overshoots. Euro area PMIs for July print on Friday. The composite PMI increased to a 15-year high in June; this month's composite PMI is projected to show moderating growth momentum. UK PMIs for July and retail sales for June are due on Friday. On Tuesday, the July RBA meeting minutes are due. The RBA's announcements around monetary policy at the July meeting were in line with our expectations, retaining the April 24 bond as the target bond for yield curve control and announcing a slower rate of bond purchases from September. We do not expect much new information from these minutes. **Author:** chris.tennent-brown@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7001	0.3%	NZD/SEK	6.073	0.4%	NZX WMP	3790.0	1.7%	Dow	34688	-0.9%
NZD/AUD	0.9457	0.5%	NZD/DKK	4.410	0.3%	Gold \$/o	1812.1	-1.0%	S&P 500	4327	-0.8%
NZD/EUR	0.5928	0.4%	NZD/THB	22.9	0.6%	WTI Oil \$/b	71.8	0.2%	NASDAQ	14427	-0.8%
NZD/JPY	77.05	0.5%	AUD/USD	0.7404	-0.2%	Money Market (%)			FTSE	7008	-0.1%
NZD/GBP	0.5080	0.6%	EUR/USD	1.181	0.0%	90 Day BB	0.46	0.05	CAC-40	6460	-0.5%
NZD/CAD	0.8827	0.4%	USD/JPY	110.0	0.2%	OCR	0.25	0.00	DAX	15540	-0.6%
NZD/CHF	0.6432	0.4%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28005	0.0%
NZD/HKD	5.438	0.3%	NZ	1.75	0.00	1yr	0.84	0.08	Nikkei	28003	-1.0%
NZD/SGD	0.9498	0.5%	US	1.29	-0.01	2yr	1.09	0.06	ASX200	7348	0.2%
NZD/CNH	4.534	0.3%	Aust	1.29	0.00	5yr	1.50	0.03	NZX50	12673	0.0%

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