

## A hawk in dove's plumage

**Officials expect 50 to 120 cases of the delta COVID variant to emerge from the Auckland-Coromandel cluster.** The country remains at Alert Level 4, with the length of restrictions dependent on how quickly officials can track and isolate the contacts of the confirmed cases thus far.

**Given all the uncertainty, the RBNZ opted to keep the OCR on hold yesterday – but the tone of the statement clearly suggests it was planning a hike before the community case bombshell.** The Bank explicitly stated employment was “at or above” its maximum sustainable level and that the ‘least regrets’ stance was now to “further reduce monetary policy stimulus” so as not to throw more fuel on the inflation expectations fire. The upshot is OCR hikes are still likely to come thick and fast before long (especially given we think there’s a risk medium-term inflation expectations lift more sharply than the RBNZ assumes), but timing and sequencing will be a bit fluid. Our full write up is [here](#).

**From here, the speed of any tightening clearly hinges on the events of this lockdown.** The economy should shrug off a short sharp lockdown akin to what we saw last August and earlier in the year, with activity merely deferred and the return of the wage subsidy helping smooth consumption. Obviously, a protracted Sydney-style goat rodeo runs the risk of leaving more scarring and means the economy will need the stimulus tap to stay on for longer. In other words, expect markets to be pretty reactive to COVID case headlines over the next 10 days or so at least. Our own core view now sees 25bps of rate hikes in each of October, November and February but note this timing remains highly, highly uncertain.

**Despite the lack of any hikes, the local market shared our view this MPS was fairly hawkish.** Pre-statement, OIS pricing had around 15bps of hikes priced for the meeting, with just under 50bps priced by the end of the year. Post-statement, the market still has around 42bps priced by the end of the year, and pricing from May 2022 onwards is actually higher than it was pre-statement (obviously the market has still shed a fair bit since the community case announcement). Broader NZ swap and bond yields also advanced (albeit also still below their levels earlier in the week) and the NZD initially shrugged off the lack of any hike to hold its ground against most of its peers (it’s since pared back overnight).

**The Fed minutes out earlier this morning have suggested the Fed is preparing to taper bond purchases by the end of the year.** The money shot from the July meeting was the comment “*Looking ahead, most participants noted that, provided that the economy were to evolve broadly as they anticipated, they judged that it could be appropriate to start reducing the pace of asset purchases this year,*” though the minutes did also note that some Committee members preferred to wait until 2022 to start reducing stimulus and the Bank wouldn’t necessarily hike policy rates straight away.

**Market moves overnight suggest a risk-off tone.** Major US equity indices have eased in the aftermath of the confirmation tapering looks to be imminent, with the Dow down 0.5%, S&P down 0.35% and the Nasdaq down 0.15%. Treasury yields are slightly higher, but not dramatically so, reflecting the relatively unsurprising development (10-year: 1.27%). Commodity prices are lower across the board, with some sizable moves (Iron Ore -5.5%, Brent Crude -17.4%).

**In currency markets, NZD and AUD have been the weaker performers overnight, reflecting that risk-off tone.** Having held its ground in the aftermath of the RBNZ’s MPS, NZD has drifted down a bit less than a cent overnight to trade around 0.689. NZD/AUD is trading towards the bottom end of its 0.950-956 range.

**Data wrap:** NZ Q2 PPI: +3% qoq for inputs and +2.6% qoq for outputs. Aussie Q2 wages +0.4% qoq (mkt: +0.6%). UK July CPI +0.0% mom (mkt: +0.2%). EU July CPI -0.1% mom (mkt: -0.1%).

**Day ahead:** No major data out in NZ today – instead its further developments on the COVID community cluster front that will be in the driver’s seat. Aussie employment data are out across the ditch (survey: 5%), but they date from July and events have moved swiftly and dramatically since then. The usual weekly jobless claims (survey: 364k) and Philly Fed Business Outlook are the overnight highlights. **Author:** [nathaniel.keall@asb.co.nz](mailto:nathaniel.keall@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6884	-0.5%	NZD/SEK	6.007	-0.9%	NZX WMP	3500.0	-0.1%	Dow	35031	-0.9%
NZD/AUD	0.9510	-0.3%	NZD/DKK	4.371	-0.5%	Gold \$/o	1785.7	0.0%	S&P 500	4417	-0.7%
NZD/EUR	0.5878	-0.5%	NZD/THB	22.9	-0.7%	WTI Oil \$/b	65.5	-1.7%	NASDAQ	14559	-0.6%
NZD/JPY	75.61	-0.6%	AUD/USD	0.7239	-0.2%	<b>Money Market (%)</b>			FTSE	7169	-0.2%
NZD/GBP	0.5004	-0.6%	EUR/USD	1.171	0.0%	90 Day BB	0.45	-0.16	CAC-40	6770	-0.7%
NZD/CAD	0.8706	-0.4%	USD/JPY	109.8	0.2%	OCR	0.25	0.00	DAX	15966	0.3%
NZD/CHF	0.6309	-0.3%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	25867	0.5%
NZD/HKD	5.359	-0.6%	NZ	1.78	0.05	1yr	0.89	-0.09	Nikkei	27586	0.6%
NZD/SGD	0.9366	-0.6%	US	1.28	0.01	2yr	1.25	0.01	ASX200	7502	-0.1%
NZD/CNH	4.463	-0.5%	Aust	1.14	0.00	5yr	1.63	0.04	NZX50	12719	0.0%

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