

COVID-19 decision looms

News on the NZ delta variant outbreak to date illustrate the risks facing NZ. There are just 22 confirmed community cases in Auckland, but the closure of North Shore Hospital, cases in two more Auckland high schools, and a growing number of locations on interest highlight the direction of risk. **It could mean that the stringent Alert Level 4 restrictions in Auckland (and possibly wider NZ) will likely get extended.** We have pencilled in 25bp OCR hikes in October, followed by a further 100bp or so of hikes by the end of next year, but note that the outlook is highly uncertain, with scope for considerable volatility over the next few months. The situation across the Tasman looks grim with yesterday's reported new cases in New South Wales (681) a post-pandemic record. Reported new infections surged to 57 in Victoria.

Following on from the August Monetary Policy Statement, the RBNZ yesterday [released](#) a summary of its views of the housing market. In short, house prices are above sustainable levels and with supply and demand dynamics turning (the latter partly due to regulatory changes and further interest rate increases for borrowers), **the RBNZ expect a moderation in house prices over the coming years although the timing remains 'uncertain'**. The RBNZ will further look at expanding its policy toolkit, consulting on introducing debt-to-income (DTI) restrictions and/or floors on the interest rates banks use in their mortgage serviceability assessments. Watch this space.

Markets traded with a broadly risk-off tone overnight, given anxiety over the pending withdrawal of Fed stimulus (a taper could occur as soon as October/November according to our CBA colleagues) and concerns over the delta variant. The VIX volatility index (21.3) hit its highest level in a month, with increased volatility ahead of the expiration of key options contracts. The major US equity indices were initially lower upon their market open but have subsequently ground higher, with the Nasdaq and S&P500 in positive territory. European stock indices fell their most in a month and followed the weaker lead in Asia. The NZX 50 (up 1.9%) was a notable outlier.

US 10-year Treasury yields have recovered this morning (currently 1.25%) after earlier hitting 2-week lows (1.22%). European yields were lower last night. NZ yields ground lower following recent volatility. Yesterday's NZGB tender attracted solid demand with yields below mid-market levels. The grim COVID-19 news across the Tasman dampened Australian yields despite the stronger than expected labour market print.

Commodity prices were lower again overnight, weighed by the higher USD and concerns over weaker global demand. Near-term contract prices for WTI and Brent fell roughly 2% to around 3-month lows.

Australian July employment surprised to the upside, with a 2.2k gain (mkt: -43k), which combined to a slight fall in labour force participation (to 66%), pushing the unemployment rate down to 4.6%, its lowest level since 2008. **As a result of extended lockdowns our CBA colleagues expect Australian employment to contract by at least 300k over the August and September months, with the unemployment rate to hit 5.6% in the coming months.**

The US labour market recovery also looks to be continuing. US initial weekly jobless claims fell to 348k (mkt: 364k, prior: 377k), their lowest since March 2020, with continuing claims (2,820k) were in line with expectations, but also their lowest in 17 months. US mortgage delinquencies dropped to 5.5% of total loans in 2021Q2, the lowest since 2020Q1. However, the Philly Fed index eased to 19.4 (21.9 prior).

FX Update: The strengthening USD trend continued, with the Greenback at the top of the G10 standings, and with commodity currencies at the bottom. The NZD fell towards 0.6800 USD yesterday evening but has mildly recovered since then to currently lie in the towards the middle of its 0.6810-0.6860 USD overnight range. The NZD made ground against the AUD last night and is currently just over 95.5 Australian cents. NZD direction is likely to hinge on NZ COVID-19 news, but we remain upbeat on the kiwi's medium-term prospects.

Day ahead: Today's 3pm COVID-19 announcement will be closely watched, with the Government expected to make a decision today over whether and when COVID-19 alert levels can be lowered. Also, at 3pm is NZ Credit card spending for July (rebound expected from 1% June fall). There are no major data releases across the Tasman. UK retail sales for July (mkt: +0.2% mom) and a speech by the FOMC's Kaplan (voter in 2023) highlight a quiet overnight session. Have a good weekend everybody. Do the right thing, follow the rules and keep everyone safe. **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6829	-0.8%	NZD/SEK	6.012	0.1%	NZX WMP	3560.0	1.7%	Dow	34962	0.0%
NZD/AUD	0.9553	0.5%	NZD/DKK	4.350	-0.5%	Gold \$/o	1778.6	-0.5%	S&P 500	4412	0.2%
NZD/EUR	0.5849	-0.5%	NZD/THB	22.8	-0.6%	WTI Oil \$/b	63.7	-2.7%	NASDAQ	14574	0.4%
NZD/JPY	74.99	0.1%	AUD/USD	0.7149	-1.2%	Money Market (%)			FTSE	7059	-1.5%
NZD/GBP	0.5007	0.1%	EUR/USD	1.168	-0.3%	90 Day BB	0.43	-0.02	CAC-40	6606	-2.4%
NZD/CAD	0.8757	-0.5%	USD/JPY	109.8	0.0%	OCR	0.25	0.00	DAX	15766	-1.3%
NZD/CHF	0.6276	-0.5%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	25316	-2.1%
NZD/HKD	5.320	-0.7%	NZ	1.75	-0.02	1yr	0.86	-0.04	Nikkei	27281	-1.1%
NZD/SGD	0.9320	-0.5%	US	1.24	-0.01	2yr	1.22	-0.03	ASX200	7465	-0.5%
NZD/CNH	4.440	-0.5%	Aust	1.09	-0.06	5yr	1.62	-0.02	NZX50	12957	0.0%

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