

It's not dead, it's restin'

The recovery in risk appetite we noted yesterday has broadened and strengthened overnight. Once again there hasn't been any discernible trigger. Instead, it seems to be a case of investors 'buying the dip', with returns elsewhere low, global growth continuing to boom, and the spreading delta variant more likely to temper the global recovery than upend it.

Stocks are a sea of green with the S&P500 up 0.7% and back to within ½% or so of all-time highs. The kick on to other markets has been more evident this time with bond yields up 5-10bps, commodity prices surging 1-4.5% (with the WTI oil price up a solid 4.5%), and the safe-haven trade in currency markets reversing course somewhat. The USD and JPY have underperformed while NZD/USD is up ¾ cent from its 0.6900 overnight lows around 0.6970. With the Australian dollar continuing to struggle, NZD/AUD is ½ cent higher around 0.9475. 'Reflation' wasn't dead, it was resting.

Admit a dearth of economic data, there was some focus on the cracking start to the US corporate earnings season. There were upbeat earnings reports from Verizon, Coca-Cola, United, and Chipotle overnight which might have assisted the bounce in stocks. Of those companies that have reported so far, 85% have beat expectations.

We bid farewell to the RBNZ's Large Scale Asset Purchase programme yesterday (LSAP, quantitative easing, money printing etc.) A final NZD90m in NZ government bonds was purchased by the RBNZ, as part of this week's planned NZD200m in bond purchases. This is of course a far cry from the bad old days of autumn 2020 when weekly RBNZ bond buying was well in excess of NZD1b/week.

The high watermark (*touch wood*) for total outstanding government bonds owned by the RBNZ is thus set at NZD54.4b on our numbers, well under the current NZD100b limit. It's unlikely the RBNZ will sell bonds back to the market. Rather, the run-off in maturities from the RBNZ's balance sheet is likely to proceed over many years. The LSAP did its job well, too well if anything, but is clearly no longer needed and culling it was the right call. RIP.

Our man in the paddock Nat Keall yesterday lowered his 2021/22 Milk Price forecast following the softer GDT dairy auction we noted yesterday. We now expect a Fonterra Milk Price of NZ\$7.90/KgMS for the current season (prior: NZ\$8.20/KgMS) See here for [more](#).

When it rains it pours. Aussie retail sales fell by more than double market expectations in June but was close to the forecasts of those economic sages at CBA (-1.8% mom, market -0.7%, CBA -1.2%). The impact of various lockdowns on spending was clearly greater than expected, but it's worth recalling the experience of previous lockdowns that spending can rebound strongly once restrictions are lifted.

Day ahead: Nothing in NZ. NAB Australian business confidence figures for Q2 will be given a wide berth given they won't fully pick up the recent deterioration in Aussie economic conditions. There's a smattering of second tier data out in the US but the focus will be on tonight's European Central Bank meeting. The ECB isn't expected to make any policy changes but it will incorporate changes from the recent strategy update, which are expected to be dovish in nature (most notably a tolerance for inflation overshoots). **Author:** mike.jones@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6972	0.8%	NZD/SEK	6.055	0.6%	NZX WMP	3695.0	0.8%	Dow	34798	0.8%
NZD/AUD	0.9475	0.4%	NZD/DKK	4.395	0.6%	Gold \$/o	1804.3	-0.3%	S&P 500	4351	0.6%
NZD/EUR	0.5908	0.6%	NZD/THB	22.9	0.8%	WTI Oil \$/b	70.6	4.6%	NASDAQ	14632	0.9%
NZD/JPY	76.88	1.2%	AUD/USD	0.7359	0.4%	Money Market (%)			FTSE	6998	1.7%
NZD/GBP	0.5082	0.1%	EUR/USD	1.180	0.2%	90 Day BB	0.45	-0.01	CAC-40	6464	1.9%
NZD/CAD	0.8761	-0.1%	USD/JPY	110.3	0.4%	OCR	0.25	0.00	DAX	15423	1.4%
NZD/CHF	0.6396	0.3%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	27225	-0.1%
NZD/HKD	5.419	0.8%	NZ	1.67	0.04	1yr	0.81	0.02	Nikkei	27548	0.6%
NZD/SGD	0.9504	0.5%	US	1.29	0.07	2yr	1.03	0.00	ASX200	7309	0.8%
NZD/CNH	4.506	0.6%	Aust	1.17	-0.02	5yr	1.43	0.02	NZX50	12709	0.5%

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