

## Settle in, we might be here a while longer

Rising active cases in the community and a ballooning list of locations of interest and close contacts to trace are ominous signs that stringent lockdowns will be extended. On a more positive note, record numbers of people have been vaccinated over recent days. The next media conference will be at 4 o'clock today.

The NZ sharemarket was down 0.1% on Friday, but rose 1.4% over the week, in contrast with global shares that rose Friday but eased over the week. The 10-year Gov't Bond yield dipped 6 basis points Friday, and 13 basis points over the week.

**European sharemarkets closed firmer on Friday.** The retail sector led gains, up 1.2%. Shares in UK retailer Marks and Spencer rose 14.1% after it raised its profit outlook. British supermarket Morrisons agreed a takeover offer worth 7.0 billion pounds (US\$9.54 billion) from US private equity group Clayton, Dubilier & Rice. The pan-European STOXX 600 index rose by 0.3%. The German Dax index also rose by 0.3% and the UK FTSE index lifted 0.4%.

**US sharemarkets were firmer on Friday.** Traders cited an easing of concerns on whether the Federal Reserve will scale back (taper) its bond buying this year. Investors now look ahead to a gathering of world central bank leaders in Jackson Hole, Wyoming in the coming week. The Dow Jones index rose by 0.7%. The S&P 500 index rose by 0.8% and the Nasdaq index added 1.2%. However, over the week, the Dow fell by 1.1%; S&P 500 lost 0.6%; and the Nasdaq lost 0.7%.

**US long-term Treasuries** eased on Friday (yields higher). US 10-year yields rose by 1 point to 1.255%. Over the week US 10-year yields fell by 3 points.

**FX Comment:** Major currencies were mixed against the US dollar in European and US trade on Friday. The NZD ended the session off its lows, as did the AUD. The NZD has eased into a lower range below 0.6850, but a similarly weak AUD sees NZD/AUD still trading above 0.9550.

**Day ahead:** There are no local data releases scheduled, and the latest COVID-19 news will be a key driver of sentiment. In Australia, IHS Markit releases the preliminary purchasing managers' indexes (PMIs) for August. Offshore, provisional PMI readings in Japan, Europe and the US are also due. In the US, the Chicago Federal Reserve National Activity index and existing home sales data are due.

**Week ahead local:** We expect another strong quarter for retail sales when Q2 data are released on Tuesday, continuing the theme of the NZ consumer driving the domestic expansion. We expect core, retail and total card spending expanded by 4.5-5.5% in Q2, supported by the surge in tourism arrivals from the trans-Tasman bubble. However, rising consumer prices (Q2 CPI surged 1.3%/qtr, 3.3%/yr) and further frictions with global supply chains could weigh on volumes. Looking forward, the move to Alert Level 4 from August 18 will dent Q3 retail sales. The July Trade Balance is due Wednesday and ANZ consumer confidence is due Friday. In terms of moving markets, the data this week could well take a back seat to news regarding the latest COVI-19 outbreak.

**Week ahead offshore:** In Australia Q2 construction work done (Wednesday) and capex (Thursday) will print. These will feed into Q2 GDP, due out the week after. We expect a small rise in construction work done in Q2 21 of 2.5%. We expect the volume of capex in Q2 21 to lift by 2.5%, driven by both gains in other buildings & structures and machinery, plant & equipment. Our Australian colleagues will provide a full preview of the national accounts next week, but at this stage we expect Q2 Australian GDP to lift by 0.7%. We expect Australian retail trade to fall 2.0% in July (data due Friday). This captures the extended lockdown in Greater Sydney and rolling lockdowns in Vic, QLD and SA. In the US, the PCE deflator for July is due Friday. In line with the already-released CPI data, we expect the monthly pace of price growth to moderate. US Federal Reserve Chair Powell will speak at Jackson Hole this upcoming weekend and may provide more hints on when the FOMC will announce a taper of its asset purchase programme. Our base case is that the FOMC will announce a taper in September, for implementation in October or November. **Author:** [chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)

Currencies			Commodities			Equities					
NZD/USD	0.6816	-0.3%	NZD/SEK	6.004	-0.1%	NZX WMP	3565.0	0.1%	Dow	35120	0.6%
NZD/AUD	0.9574	0.0%	NZD/DKK	4.335	-0.2%	Gold \$/o	1781.1	0.0%	S&P 500	4442	0.8%
NZD/EUR	0.5827	-0.3%	NZD/THB	22.7	-0.2%	WTI Oil \$/b	62.3	-2.2%	NASDAQ	14715	1.2%
NZD/JPY	74.78	-0.3%	AUD/USD	0.7118	-0.3%	<b>Money Market (%)</b>			FTSE	7088	0.4%
NZD/GBP	0.5001	-0.3%	EUR/USD	1.169	-0.1%	90 Day BB	0.39	-0.04	CAC-40	6626	0.3%
NZD/CAD	0.8731	-0.8%	USD/JPY	109.7	-0.1%	OCR	0.25	0.00	DAX	15808	0.3%
NZD/CHF	0.6243	-0.4%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	24850	-1.8%
NZD/HKD	5.326	0.0%	NZ	1.70	-0.06	1yr	0.83	-0.04	Nikkei	27013	-1.0%
NZD/SGD	0.9284	-0.2%	US	1.26	0.01	2yr	1.17	-0.04	ASX200	7461	-0.1%
NZD/CNH	4.430	-0.2%	Aust	1.08	0.00	5yr	1.56	-0.05	NZX50	12940	0.0%

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