

## On top of the (test cricket) world!

**A brilliant session for the Black Caps overnight**, who won the first ICC World Test Championship final after skittling India for 170 runs in their second innings and then scored the required 140 runs with the loss of just two wickets. In what was a team effort Kyle Jamieson took out the player of the match. It marks a phenomenal turnaround after NZ was dismissed by South Africa for just 45 in 2013 and helps to make amends after the Super Over 2019 World Cup loss to England.

**Recent events were a reminder we are still in a global pandemic.** The NZD and local yields dipped after the Wellington region was put on Alert Level 2 (from 6pm Wednesday until 11.59pm on Sunday). This followed a traveller from Sydney testing positive for COVID-19 on their return. NZ close contacts are in isolation and testers and contract tracers are working overtime. The economic impact is likely to be minimal, but a nervous wait lies ahead. Restrictions were tightened in Sydney following a spike in COVID-19 cases, with the NZ-New South Wales travel bubble on hold.

**Differences in the FOMC view were highlighted.** The calm following earlier comments by FOMC Chair Powell was interrupted by hawkish comments from 2021 FOMC voter Bostic, who envisaged QE tapering in the next few months and possible Fed rate hikes next year given the faster than expected economic recovery. Bowman (2021 voter) also warned that high US inflation may last longer than anticipated. Closer to home, RBA Assistant Governor Luci Ellis warned that COVID-19 is not over with policy support needed to prop up demand, keep people employed and ease the transition in a post-pandemic world.

**US Treasury yields edged higher across the curve** (10y 1.49%) given the Bostic comments and strong US PMIs (see below). Yields in European were generally slightly lower as were Australian yields yesterday. **Equity markets largely traded sideways** with modest moves in the major US indices, with European equities weighed by strong economic data and higher US Treasury yields. Stocks were mixed in the Asian session (ASX 200 -0.6%, NZX 50 +0.4%). **Commodity prices were generally firmer.** Expectations of falling stockpiles and the likely delay in nuclear talks with Iran kept oil prices elevated, with near-term prices for Brent above USD75 per barrel, with WTI above USD73. As discussed in our commodities [weekly](#), NZD-denominated export commodity prices hit a record high last week.

Given tightening capacity pressures and the strong inflation outlook, **our CBA colleagues have changed their published view and now expect hikes in the 0.1% RBA cash rate from November 2022, with the cash rate to peak at 1.25% by Q3 2023.** The NZ outlook is very, very similar and we expect OCR hikes within the next 12 months.

**Data wrap:** Global manufacturing PMIs showed strong momentum in June, with elevated readings in the US (62.5, mkt: 61.5, prior: 62.1), UK (64.2 versus mkt: 64, prior: 65.6), Eurozone (63.1, mkt: 62.3, 63.1 prior) and Australia (58.4, 60.4 prior). Services PMIs were also strong (US 64.8, mkt:70, prior: 70.4, UK 61.7 versus mkt: 62.8, prior: 62.9, Eurozone 58, mkt: 58, prior: 55.2, and Australia 56, 58 prior). US new home sales fell in May (769k versus mkt: 865k), which followed the milder than expected decline for existing home sales.

**Last NZDM tender for the 20/21 financial year today.** NZDM will be tendering \$300m of the 2026, 2031 and 2033 nominal bond as well as \$50m of 2040 linkers. Next week, NZDM will be stepping up weekly issuance (NZDM has flagged a \$500-550m weekly issuance schedule for July), consistent with the \$30bn of gross issuance flagged for 20/21 in Budget 2021. This will put pressure on the market to absorb the higher issuance (biasing yields higher). Recall the RBNZ has lowered LSAP purchases this week to \$200m and we don't expect the RBNZ to increase weekly purchases next month, but eventually look to continue its policy tapering ahead of lifting the OCR (in May 2022, with risks of an earlier move).

**FX comment:** The USD partly recovered from earlier loses, to sit mid-table in the G10 currency league. The NZD has modestly pushed higher and traded in a 0.7000 to 0.7070 USD range overnight and is currently 0.93 AUD. Elevated export commodity prices, improving global prospects (despite the clear COVID-19 risks) and the likelihood of the RBNZ being one of the earlier OECD central banks to hike policy rates remain key NZD supports.

**Day ahead:** Quiet in Australasia, apart from NZDM tendering \$350m of NZ bonds shortly after 2pm (see above). The Bank of England is widely expected to hold current policy settings (0.1% bank rate, £895bn in gilt/corporate bond purchases), with a tightening bias likely to be in play and markets looking for clues on QE tapering. The German IFO survey for June is out, with general improvement expected. Improving US May Durable Goods (mkt: 2.8% mom), declining jobless claims (mkt: initial 380k, continuing 3,460k) and a steady 6.4% annualised 3<sup>rd</sup> US GDP print are expected tonight. There is a flurry of speeches by Fed members over the next 24 hours; the ECB Economic Bulletin is out. **Author:** [mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7038	0.2%	NZD/SEK	5.980	0.4%	NZX WMP	3830.0	-0.4%	Dow	33884	0.0%
NZD/AUD	0.9301	0.0%	NZD/DKK	4.390	0.3%	Gold \$/o	1774.7	-0.2%	S&P 500	4250	0.1%
NZD/EUR	0.5904	0.4%	NZD/THB	22.4	0.6%	WTI Oil \$/b	73.3	0.3%	NASDAQ	14268	0.4%
NZD/JPY	78.11	0.1%	AUD/USD	0.7567	0.2%	<b>Money Market (%)</b>			FTSE	7074	-0.2%
NZD/GBP	0.5044	0.1%	EUR/USD	1.192	-0.2%	90 Day BB	0.34	0.00	CAC-40	6551	-0.9%
NZD/CAD	0.8664	0.2%	USD/JPY	111.0	0.3%	OCR	0.25	0.00	DAX	15456	-1.2%
NZD/CHF	0.6468	0.2%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	28817	1.8%
NZD/HKD	5.465	0.2%	NZ	1.80	-0.02	1yr	0.46	-0.01	Nikkei	28875	0.0%
NZD/SGD	0.9475	0.3%	US	1.49	0.03	2yr	0.72	-0.02	ASX200	7298	-0.6%
NZD/CNH	4.560	0.3%	Aust	1.57	-0.03	5yr	1.36	-0.02	NZX50	12586	0.4%

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