

## NZD back on its uppers, as RBNZ stays on message

Both the NZ dollar and NZ interest rates have staged reasonable rebounds over the past 24 hours, particularly the former. Global and domestic factors have both contributed.

The recovery in global risk appetite that began on Monday continued overnight. There hasn't been any earth-shattering news to link it to, but it likely reflects some combination of a) a stabilisation in the Chinese COVID situation, 2) easing fears Fed chair Powell will set a course for an early tapering at Friday's Jackson Hole address (something we never thought likely in any case), and 3) no news is good news.

US stock indices are up 0.1% (Dow) to 0.6% (NASDAQ) to fresh record highs, bond yields are up 3-5 bps, and commodity prices are a sea of green. Energy prices have led the gains (oil +3.3%) in sign that faith in global demand broadly remains, despite last week's wobble.

The more constructive backdrop has seen the USD lose some of its lustre. The greenback and its 'safe-haven' counterparts the JPY and CHF have clearly underperformed overnight, with the commodity currencies – NOK, AUD, NZD, and CAD occupying the top four positions in the G10. The ½ cent rally in the NZD/USD, coupled with yesterday's bounce, has seen the kiwi regain around 2/3 of last week's COVID-driven sell off. NZD/AUD was briefly squeezed up to a fresh 8-month high close to 0.9600, but has since backed off a little.

The RBNZ communications machine is still going full tilt following last week's last-minute call to delay rate hikes. The Bank has been keen to spread the word that it was only timing that stopped a rate rise (hiking rates on the 1<sup>st</sup> day of lockdown being a bad look), not necessarily any ill economic effects from the lockdown.

RBNZ assistant governor Hawkesby, if anything, stepped up the hawkish rhetoric in an interview with Bloomberg after the close yesterday. He reiterated "decisions about monetary policy aren't going to be linked to Covid, and whether we're in lockdown or not...we're going to be in an environment where we need to live with Covid in its various forms".

For the first time, to our minds, Hawkesby also confirmed they may have hiked 50bps last week, absent lockdown: "A 50 basis point move was definitely on the table...". A 50bp hike later this year wasn't ruled out. Local swap rates lifted 4-5bps across the curve yesterday. Overnight moves and the RBNZ's continued hawkish rhetoric should see rates open higher this morning.

Yesterday's Q2 retail trade survey was a belter. The 3.3% quarterly expansion in retail volume was well above street (2.5%) and our own expectations and provided further confirmation the economy was basically red-lining going into lockdown. There's now upside risk on our 0.8%qoq Q2 GDP pick. We'll see some pullback in Q3 now that the economy is back in lockdown. But we're confident in a decent rebound in Q4 as pent-up demand and high household savings gets folk spending again.

Day ahead: Local trade balance figures for July will be largely ignored while, in Australia, our friends at CBA expect a small 5.2% lift from Q2 construction figures. The international data calendar is largely bare. There's just US durable goods orders and the German IFO survey for August. Author: [mike.jones@asb.co.nz](mailto:mike.jones@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6949	0.8%	NZD/SEK	6.038	0.5%	NZX WMP	3545.0	0.0%	Dow	35366	0.1%
NZD/AUD	0.9577	0.2%	NZD/DKK	4.396	0.7%	Gold \$/o	1803.8	-0.1%	S&P 500	4486	0.2%
NZD/EUR	0.5910	0.7%	NZD/THB	22.9	-0.3%	WTI Oil \$/b	67.7	2.8%	NASDAQ	15020	0.5%
NZD/JPY	76.21	0.8%	AUD/USD	0.7256	0.6%	<b>Money Market (%)</b>			FTSE	7126	0.2%
NZD/GBP	0.5061	0.8%	EUR/USD	1.176	0.1%	90 Day BB	0.39	0.00	CAC-40	6664	-0.3%
NZD/CAD	0.8752	0.3%	USD/JPY	109.7	0.0%	OCR	0.25	0.00	DAX	15906	0.3%
NZD/CHF	0.6343	0.9%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	25728	2.5%
NZD/HKD	5.412	0.8%	NZ	1.73	0.04	1yr	0.92	0.08	Nikkei	27732	0.9%
NZD/SGD	0.9415	0.7%	US	1.29	0.04	2yr	1.23	0.06	ASX200	7503	0.2%
NZD/CNH	4.498	0.7%	Aust	1.16	0.05	5yr	1.60	0.05	NZX50	13072	0.0%

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	<a href="mailto:nick.tuffley@asb.co.nz">nick.tuffley@asb.co.nz</a>	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	<a href="mailto:mark.smith4@asb.co.nz">mark.smith4@asb.co.nz</a>	(649) 301 5657	
Senior Economist	Mike Jones	<a href="mailto:mike.jones@asb.co.nz">mike.jones@asb.co.nz</a>	(649) 301 5661	
Senior Economist	Jane Turner	<a href="mailto:jane.turner@asb.co.nz">jane.turner@asb.co.nz</a>	(649) 301 5853	
Senior Economist, Wealth	Chris Tennent-Brown	<a href="mailto:chris.tennent-brown@asb.co.nz">chris.tennent-brown@asb.co.nz</a>	(649) 301 5915	
Economist	Nat Keall	<a href="mailto:nathaniel.keall@asb.co.nz">nathaniel.keall@asb.co.nz</a>	(649) 301 5720	
Publication and Data Manager	Judith Pinto	<a href="mailto:judith.pinto@asb.co.nz">judith.pinto@asb.co.nz</a>	(649) 301 5660	



<https://reports.asb.co.nz/index.html>

[@ASBMarkets](https://twitter.com/ASBMarkets)

ASB Economics  
ASB North Wharf, 12 Jellicoe Street, Auckland

#### Important Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.