

Upbeat earnings send US shares to another record close

US sharemarkets rose to record highs on Friday with sentiment boosted by upbeat earnings. After posting earnings, shares in American Express rose 1.3%, Twitter rose 3% while Snapchat gained 23.8%. But shares in Intel fell 5.3%. The Dow Jones lifted 0.7%, closing above 35,000 points for the first time. The S&P 500 and NASDAQ indices rose by 1.0%. Over the week the Dow rose by 1.1%; the S&P 500 index lifted 2.0%; and the Nasdaq gained 2.8%.

European sharemarkets were firmer on Friday with Refinitiv noting "optimism about the earnings season and the European Central Bank's pledge of continued monetary support outweighed risks of a resurgence in COVID-19 cases." The pan-European STOXX 600 index rose by 1.1% to record highs. Automakers led the way with the sector up 2.5%. The German Dax index rose by 1.0%, and the UK FTSE rose by 0.9%.

US long-term Treasuries were flat on Friday ahead of the Federal Reserve meeting in the coming week. US 10-year yields rose by less than 1 point on Friday, and were down 2 points over the week to trade near 1.28%.

New Zealand shares rose 0.1% Friday and 0.5% over the past week. Fisher & Paykel Healthcare rose while Air NZ and Auckland Airport declined, reflecting increasing concerns about the spread of COVID-19. On Friday the Government suspended quarantine-free travel from Australia for eight weeks. The NZ 10-year Government bond yield was down around 12 basis points over the week.

In US economic data, the 'flash' Markit purchasing managers index (PMI) for manufacturing rose from 62.1 to 63.1 in July (consensus: 62). The services PMI fell from 64.6 to 59.8 in July (consensus: 64.8). **The Eurozone Composite Markit PMI** increased to a 21-year high of 60.6 in July (consensus: 60.0). The details show the rate of expansion in the manufacturing sector remains robust and service sector growth is the fastest since May 2000. **The UK Markit composite PMI** fell more than expected in July to a four-month low of 57.7 (consensus: 61.5) with survey respondents widely reporting staff and raw material shortages due to the pandemic. Meanwhile, the **UK June retail sales report** was better than expected, possibly reflecting the start of the Euro 2020 football championship. Retail sales volumes rose 0.5% in June (consensus: 0.1%) driven by food stores. UK retail sales activity will likely remain encouraging as the GfK consumer confidence index increased in July to its highest level since February 2020.

FX Update: Major currencies were mixed against the US dollar in European and US trade. NZD traded in a narrow range on Friday and despite lifting off the week's lows, remains below 0.7000 still. NZD/AUD is trading around 0.9470. The FOMC meeting on Thursday and Australian CPI on Wednesday are the week's major events.

Global oil prices rose modestly on Friday on expectations that global crude oil supplies will remain tight for most of 2021. Brent crude rose by US31 cents or 0.4% to US\$74.10 a barrel.

Day ahead: The June trade balance is due at 10.45. In the US, new home sales data and the Dallas Federal Reserve manufacturing index are issued.

Week ahead local: On Thursday the final reading of the July ANZ Business outlook survey is due. On Friday the ANZ consumer confidence is due, as well as June Building consents. **Week ahead offshore:** In Australia the focus is firmly on the unfolding COVID-19 situation. Nonetheless the Q2 CPI figures on Wednesday will be worth watching as they will give us an idea of what inflationary pressures may have been brewing in the lead-up to the latest lockdowns. Our forecast is for the headline CPI to increase by 0.7% in Q2 21 which would see Australia's annual rate spike to 3.8%. In the US, the Federal Open Market Committee will meet to discuss monetary policy, with the announcement due 6am Thursday morning NZT. We expect the FOMC to leave the Fed Funds rate and asset purchases unchanged. However, we expect the FOMC will change its guidance on the outlook for asset purchases. We expect the FOMC will announce a taper in September with effect in October. However, the pick-up in COVID infections in the US raises the risk that the FOMC is more cautious. The week ahead also includes the release of US Q2 21 GDP (Thursday night NZT). We estimate US economic momentum accelerated in Q2 21 with a strong 8.0%saar expansion. Consumption will have been a major driver of US GDP growth in Q2. There will be updates on inflation in Canada (Wednesday) and the Eurozone (Friday). Q2 21 GDP figures are also scheduled for release in the Eurozone on Friday. Eurozone real GDP declined by 0.3% over Q1 to be 5.1% below its level in Q4 2019. Real GDP is expected to rebound in Q2 driven by private consumption. **Author:** chris.tennent-brown@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6976	-0.1%	NZD/SEK	6.060	-0.1%	NZX WMP	3695.0	0.5%	Dow	35062	0.7%
NZD/AUD	0.9471	-0.1%	NZD/DKK	4.408	-0.1%	Gold \$/o	1802.1	-0.3%	S&P 500	4412	1.0%
NZD/EUR	0.5925	-0.1%	NZD/THB	23.0	-0.1%	WTI Oil \$/b	72.3	0.3%	NASDAQ	14837	1.0%
NZD/JPY	77.07	-0.2%	AUD/USD	0.7365	0.0%	Money Market (%)			FTSE	7028	0.9%
NZD/GBP	0.5071	-0.2%	EUR/USD	1.177	0.0%	90 Day BB	0.46	0.00	CAC-40	6569	1.3%
NZD/CAD	0.8763	-0.1%	USD/JPY	110.5	0.0%	OCR	0.25	0.00	DAX	15669	1.0%
NZD/CHF	0.6418	-0.1%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	27322	-1.4%
NZD/HKD	5.427	0.0%	NZ	1.64	-0.01	1yr	0.83	0.02	Nikkei	27548	0.6%
NZD/SGD	0.9487	-0.1%	US	1.28	0.00	2yr	1.05	0.01	ASX200	7394	0.1%
NZD/CNH	4.517	-0.1%	Aust	1.21	0.01	5yr	1.44	0.00	NZX50	12736	0.1%

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