

Global markets shrug off COVID-19 concerns, with cases rising in NZ

COVID-19 numbers in NZ were always going to get worse before they got better. There were 62 new community cases reported yesterday (210 active cases in total). **Risks are increasingly tilted to Alert Level 4 restrictions (at least in Auckland) being extended well into September.** Recent RBNZ rhetoric (see yesterday's daily) had been that the restrictions merely defer activity and don't substantively change the OCR outlook. We expect OCR hikes from October. However, a lot can happen between now and then and the delta variant has proven a tough nut to crack. Witness efforts across the ditch, with New South Wales seeing a record 919 new cases yesterday despite Sydney being in various forms of lockdowns since late June. Surging delta variant cases in Japan have seen the state of emergency expanded.

Markets have shrugged off pandemic concerns, with improving risk appetite evident on thin volumes traded ahead of the key FOMC Jackson Hole meeting at the end of this week. There are hopes the FOMC will seek to maintain highly accommodative policy settings. And, with the US House earlier adopting a USD3.5 trillion budget resolution, fiscal policy is doing its bit as well.

Global equities hovered around record highs. The major US equity indices were slightly up on thin trading (S&P500 +0.3%, Nasdaq +0.2%). There were modest gains in the major European bourses as well. Equities were generally up in the Asian session (AS200 + 0.4%, NZX 50 +0.8%). Fresh regulatory concerns saw Chinese stocks pare earlier gains. **Commodity prices were generally higher.** Declining US crude inventories, improving expectations of demand and the weaker USD helped push oil prices higher, with near-term contract prices for Brent at 3-week highs. Gold prices fell.

Global bonds saw higher yields and steeper curves, albeit on low volumes. US 10-year Treasury yields (1.35%) hit 2-week highs. Core European 10-year government bond yields were 5-6bps higher overnight (UK 0.60%, Germany -0.43%). NZ swap yields retraced their earlier RBNZ-instilled climb, with a curve flattening bias. NZ Government bond yields followed global peers up (10y 1.75%). Australian government bond yields were a fraction higher (10Y 1.15%).

There was little market reaction to overnight data. July US durable goods orders were flat (-0.1% versus mkt: -0.3%). Led by easing expectations (to 97.5), the August German IFO survey eased to 99.4, despite current assessments increasing to their highest level in two years (101.4).

There was also little market reaction to the NZ July trade figures showing a \$402m monthly deficit (-\$318m seasonally adjusted), which widened the annual deficit to \$1.1bn. Surging oil and vehicle imports were the catalyst. Plant & machinery imports were up 19% yoy, a positive sign for addressing widespread capacity constraints.

Q2 Australian construction work done undershot expectations, rising just 0.8% qoq (CBA: 5.2% qoq, mkt: 2.8% qoq). Residential work was flat and, while it won't add to Q2 GDP, it is expected to remain elevated due to the HomeBuilder programme and low interest rates.

FX Update: Improved risk appetite consigned safe-haven currencies (USD, yen and Swiss franc) to the foot of the G10 currency ladder with the kiwi perched at the top. The NZD is climbing towards 70 US cents having traded in a 0.6935 to 0.6985 USD range overnight. Against the Aussie the NZD is just under 96 cents. NZD direction will hinge on global risk appetite and NZ COVID-19 news. We remain upbeat on NZD prospects.

Day ahead: No local data out today, with the COVID-19 update at 1pm. Shortly after this is the \$500m weekly tender of the 2024, 2031 and 2037 NZ Government bonds (likely to trade slightly through mid-market levels). The Australian Q2 capex survey is at 1.30pm (mkt Q2: 2.6% qoq). Tonight has initial jobless claims (mkt: 350k), continuing claims (mkt: 2764k), and the release of the 2nd reading of Q2 US GDP (mkt: 6.7% qoq annualised). The FOMC's annual 'virtual' Jackson Hole shindig is due to start at 11am tomorrow at 11am (NZT). Focus is whether the FOMC will provide an indicative timeframe for tapering its USD120bn in monthly asset purchases. Our CBA colleagues expect a taper announcement by the FOMC next month, with tapering to begin later this year. Author: mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6978	0.4%	NZD/SEK	6.063	0.4%	NZX WMP	3540.0	-0.1%	Dow	35436	0.2%
NZD/AUD	0.9591	0.2%	NZD/DKK	4.411	0.4%	Gold \$/o	1791.3	-0.6%	S&P 500	4496	0.2%
NZD/EUR	0.5931	0.4%	NZD/THB	22.9	0.1%	WTI Oil \$/b	68.2	0.7%	NASDAQ	15053	0.2%
NZD/JPY	76.78	0.2%	AUD/USD	0.7276	0.3%	Money Market (%)			FTSE	7150	0.3%
NZD/GBP	0.5072	0.2%	EUR/USD	1.177	0.1%	90 Day BB	0.46	0.00	CAC-40	6676	0.2%
NZD/CAD	0.8793	-0.1%	USD/JPY	110.0	0.3%	OCR	0.25	0.00	DAX	15861	-0.3%
NZD/CHF	0.6377	0.5%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	25694	-0.1%
NZD/HKD	5.433	0.4%	NZ	1.75	0.02	1yr	0.94	0.01	Nikkei	27725	0.0%
NZD/SGD	0.9442	0.3%	US	1.35	0.05	2yr	1.27	0.01	ASX200	7532	0.4%
NZD/CNH	4.515	0.4%	Aust	1.16	0.01	5yr	1.62	-0.01	NZX50	13173	0.0%

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