

## NZ COVID count climbs, with nervous markets on lookout for taper talk at Jackson Hole

There were a record 68 new community cases from the current outbreak reported yesterday (277 active cases in total of which 265 were in Auckland), in 6 sub-clusters. Yesterday also saw a record number of vaccines administered and the NZ tally reaching 3 million. The number of new locations of interest (around 500 in total) is slowing but PM Ardern reaffirmed the intent to stick with the elimination strategy whilst ramping up the vaccine programme (no numerical target but “the highest number of people possible”). **It points to Alert Level 4 restrictions being extended (at least in Auckland) until well into September.**

**Markets were in a nervous mood leading up to the looming (virtual) FOMC Jackson Hole meetings, trading with a modest risk-off tone.** Markets are wary that 2021 FOMC voters will take the guidance of non-voting FOMC hawks (George and Kaplan were on the wires overnight) and announce an imminent taper of the USD120bn in monthly Fed asset purchases. Media reports of explosions around Kabul Airport in Afghanistan (where mass evacuations are taking place) didn't help the mood.

**Global equities were slightly lower overnight.** The major US equity indices were around 0.5% down on lower-than-average volumes traded. The major European bourses were also slightly lower. Equities were generally down in the Asian session, but moves were generally modest (AS200 -0.5%), with regulatory concerns triggering slightly larger falls in Chinese stock indices.

**Commodity prices reversed earlier climbs given concerns over the FOMC paring stimulus and the stronger USD. Near-term contract prices for WTI and Brent were around 1% lower in thin volumes traded.** Gold prices were a fraction higher.

**The risk-off tone slightly dampened Treasury yields with the yield curve flattening (10Y 1.34%), albeit on low volumes traded. Bond yields elsewhere were a touch higher.** NZ swap yields ground a fraction higher, with the 21bps of OCR hikes priced in for August and the 45bps priced in by November suggesting the current lockdown is unlikely to prevent RBNZ hikes. Australian government bond yields rose (10Y 1.19%).

**South Korea stole NZ's thunder by becoming the first OCED country to raise official interest rates in the COVID-19 era.** The Bank of Korea hiked its key policy rate by 25bps to 0.75%, with the focus shifting to gradually reducing policy support so as to prevent overheating, rein in asset price gains, growing financial imbalances and climbing household debt. These are similar risks that the RBNZ is facing, which point to the need for a higher OCR.

**There was little market reaction to recent data.** US initial jobless claims was in line with the market consensus and little changed on the prior week (353k versus mkt: 350k). Continuing claims were a touch higher than expected (2,862k, mkt: 2,772k). The 2<sup>nd</sup> reading of Q2 US GDP was fractionally softer than expected 6.6% versus 6.7% qoq annualised. Meanwhile, the Australian Capex survey showed a stronger-than-expected 4.4% Q2 increase in volumes. Capex plans are still pointing to strong non-mining investment over 21/22 (roughly +15%), a strong result considering current lockdowns.

**FX Update:** Increased risk aversion supported safe-haven currencies, with the USD and yen up overnight. The AUD, CAD and GBP were the major laggards, with the NZD towards the bottom of the G10 currency table. The NZD is currently around 69.5 US cents having traded in a tight 0.6940 to 0.6980 USD range overnight. Against the Aussie the NZD is just over 96 cents. NZD direction will hinge on global risk appetite and NZ COVID-19 news. We remain upbeat on NZD prospects.

**Day ahead:** With this survey largely completed prior to the delta variant outbreak, NZ August consumer sentiment data at 10am should show little change (prior: 113.1). The daily COVID-19 update is back on the watch list, with the announcement on alert levels to be made at 3pm today. The worsening delta variant outbreak is expected to dent Australian preliminary July retail sales (mkt: -2.5% mom, prior -1.8% mom). Tonight's key data are the US Private Consumption Expenditure report for July (mkt: core PCE deflator +3.6% yoy, prior 3.5% yoy) along with a raft of 2<sup>nd</sup> tier data. The FOMC's virtual Jackson Hole meetings start later this morning, with Powell speaking early tomorrow morning. 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. Have a good weekend. Stay safe. Author: [mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6947	-0.4%	NZD/SEK	6.054	-0.1%	NZX WMP	3540.0	0.0%	Dow	35246	-0.4%
NZD/AUD	0.9597	0.1%	NZD/DKK	4.396	-0.2%	Gold \$/o	1791.9	0.1%	S&P 500	4472	-0.6%
NZD/EUR	0.5912	-0.3%	NZD/THB	22.7	-0.5%	WTI Oil \$/b	67.4	-1.4%	NASDAQ	14966	-0.5%
NZD/JPY	76.44	0.1%	AUD/USD	0.7239	-0.5%	<b>Money Market (%)</b>			FTSE	7125	-0.4%
NZD/GBP	0.5072	0.1%	EUR/USD	1.175	-0.2%	90 Day BB	0.45	-0.01	CAC-40	6666	-0.2%
NZD/CAD	0.8811	0.1%	USD/JPY	110.0	0.0%	OCR	0.25	0.00	DAX	15794	-0.4%
NZD/CHF	0.6379	0.1%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	25416	-1.1%
NZD/HKD	5.410	-0.4%	NZ	1.77	0.01	1yr	0.95	0.01	Nikkei	27742	0.1%
NZD/SGD	0.9411	-0.3%	US	1.34	0.00	2yr	1.27	0.01	ASX200	7491	-0.5%
NZD/CNH	4.505	-0.2%	Aust	1.19	0.03	5yr	1.63	0.01	NZX50	13052	0.0%

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