

## Bond yields surge higher

**Bond yields** here and abroad continue to lift, with the local 10-year yield surging above 2% on Friday. Higher inflation expectations and major central banks shifting towards a reduction in monetary policy accommodation are supporting the broad upswing in government bond yields. The US Fed and Bank of England turned more hawkish at their respective meetings last week.

**The local sharemarket dipped** on Friday, weighed down by a 3% retreat in Fisher & Paykel Healthcare's share price. The S&P/NZX 50 Index was down 0.3% on Friday, but up 0.2% over the week. Meanwhile **US shares ended the week flat/up** small amounts, with the NASDAQ unchanged, and the Dow and S&P 500 indices up 0.1%.

**NZ imports** increased \$1.8 billion in August 2021 compared with August 2020, resulting in a record monthly trade deficit of \$2.1 billion, Stats NZ reported on Friday. Imports of vehicles, parts, and accessories were up \$415 million. Mechanical machinery and equipment imports were up \$223 million, and petroleum and petrol products were up \$207 million on a year earlier.

Concern around the potential default of cash-strapped **Chinese property developer Evergrande** Group remain. Holders of Evergrande's dollar bonds have yet to receive last Thursday's scheduled US\$83.5 million coupon payment, which has a 30-day grace period before default is triggered.

**Germany held a general election yesterday**, and the results are now coming in. The Social Democrats and centre-right CDU/CSU alliance look to have a similar 25% of the votes. If it remains this tight once all the votes are in it's probable that it will take quite a while to form a coalition government. Angela Merkel is stepping down after four terms but remains leader until a new government is formed.

**FX Comment:** The NZD continues to trade around the 0.7000 mark against the USD and just shy of 0.9700 against the AUD. It's a quiet week on the data front, with the RBNZ's meeting next week the looming focus. China declared all cryptocurrency-related financial activities illegal last week.

**Day ahead:** There are no data releases in NZ or Australia today, and the provisional report on US Durable goods is the only release coming up tonight.

**Week ahead local:** Building consent data for August are due on Thursday, and the September ANZ Business Outlook is also released. ANZ released the preliminary results earlier this month, which proved remarkably resilient and barely budged following the NZ Delta outbreak in mid-August. Another subpar reading is expected for consumer sentiment on Friday as the impacts of the lift from Alert Level 1 from mid-August (only partially captured in ANZ's August survey) weigh.

**Week ahead offshore:** There are a number of data prints in Australia this week which will show the impacts of the lockdowns in NSW and Victoria. We expect retail trade (Tues), building approvals, job vacancies (Thurs) and new lending for housing to fall (Friday). Private sector credit growth is also scheduled in the week ahead. The Private Consumption Expenditure deflator for August (Thursday) and ISM manufacturing survey results for September (Friday) will be the releases to watch in the US. In Europe, September CPI inflation is scheduled for Friday: headline CPI inflation surged to a multi-year high of 3%yoy in August. The ECB projects inflation to continue to rise until the end of this year before easing in the first half of 2022. **Author:** [chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7015	0.0%	NZD/SEK	6.067	0.0%	NZX WMP	3770.0	0.0%	Dow	34798	0.1%
NZD/AUD	0.9660	0.0%	NZD/DKK	4.452	0.1%	Gold \$/o	1750.4	0.4%	S&P 500	4455	0.1%
NZD/EUR	0.5983	0.1%	NZD/THB	23.5	0.2%	WTI Oil \$/b	74.1	0.9%	NASDAQ	15048	0.0%
NZD/JPY	77.68	0.0%	AUD/USD	0.7262	0.0%	<b>Money Market (%)</b>			FTSE	7051	-0.4%
NZD/GBP	0.5130	0.0%	EUR/USD	1.172	0.0%	90 Day BB	0.62	0.01	CAC-40	6638	-0.9%
NZD/CAD	0.8876	0.9%	USD/JPY	110.7	0.0%	OCR	0.25	0.00	DAX	15532	-0.7%
NZD/CHF	0.6480	0.0%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	24192	-1.3%
NZD/HKD	5.462	0.0%	NZ	2.01	0.11	1yr	1.11	-0.01	Nikkei	30249	2.1%
NZD/SGD	0.9496	0.1%	US	1.45	0.02	2yr	1.46	0.01	ASX200	7343	-0.4%
NZD/CNH	4.533	0.1%	Aust	1.41	0.14	5yr	1.85	0.03	NZX50	13260	0.0%

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