

Chinese equities tumble on US-China tensions

US-China tensions were a source of volatility yesterday, with Chinese equities notching up some sharp falls yesterday. Reportedly, US funds are offloading Chinese assets in response to a recent crackdown in tech stocks by China and anticipation of further troubles ahead. As a consequence, major share indices in mainland China and Hong Kong have dipped quite sharply: the Hang Seng closed down 4.22%, the CSI 300 3.53% lower and the Shanghai Composite dropped 2.49%. So far, the evidence of contagion has been relatively limited – other Asia-Pacific share indices actually gained yesterday – but it's a development worth watching.

The night's biggest moves have been in the world of equity markets, specifically for tech shares. As at the time of writing, the Nasdaq has fallen 1.46%, driven by pre-earnings report anxieties for Apple and Microsoft (both are due to report after market close). The S&P 500 and Dow are each down 0.59% and 0.38%, respectively.

With US-China tensions in focus and worries about the uptick in Delta COVID cases in focus, Treasury yields have fallen overnight. The yield curve is lower with a flattening bias, and the US 10-year is trading around 1.236% as at the time of writing. Bond yields across Europe have also moved lower.

FX Update: A soggy performance for the NZD overnight, losing ground against the rest of the G10. JPY and the Swiss Franc have been some of the bigger winners, reflecting the choppy risk sentiment yesterday and overnight. Some nice gains for sterling too amid a sharpish drop in COVID cases in the UK. As at the time of writing, NZD/USD is trading around 0.696, while NZD/AUD is around 0.945.

Local recap: Modest moves in Australasian equity markets yesterday despite the jitters offshore, with the NZX down 0.65% and the ASX up by a slightly smaller magnitude. In bond markets, the Aussie yield curve was little changed over the day, while there were broad lifts and a bit of steepening in the kiwi curve. A speech by RBA heir apparent Guy Debelle passed without fanfare.

Day ahead: There are various bits and bobs of second-tier data out, but all eyes are on the two big beasts of the next 24 hours: the Aussie CPI at 1.30pm, and the Fed announcement at 6am tomorrow.

Our CBA friends expect Aussie CPI to lift 0.7% qoq – in line with market expectations – which would see annual inflation hit a whopping 3.8%. That lofty annual figure is largely a function of base effects, because of the introduction of free childcare in the figures last year. Still, it'll be worth watching for signs of a stronger than expected outcome as the RBA seeks to balance rising cost pressures with the ongoing uncertainty around the Delta outbreak.

At the Fed meeting, we expect the key policy levers to remain unchanged, but will be keeping an eye out for signs of a shift tone. The vagaries of the Fed's verbiage will be key here – look for the Bank to drop the 'substantial' from its usual line about the 'substantial further progress' required to meet its policy goals. That sign would support our view the Fed is likely to announce a taper at its September meeting. **Author:** nathaniel.keall@asb.co.nz

Currencies			Commodities			Equities					
NZD/USD	0.6961	-0.6%	NZD/SEK	6.002	-0.6%	NZX WMP	3755.0	0.5%	Dow	35050	-0.3%
NZD/AUD	0.9452	-0.3%	NZD/DKK	4.380	-0.7%	Gold \$/o	1800.8	0.2%	S&P 500	4390	-0.7%
NZD/EUR	0.5888	-0.7%	NZD/THB	22.9	-0.5%	WTI Oil \$/b	71.5	-0.5%	NASDAQ	14647	-1.3%
NZD/JPY	76.38	-1.0%	AUD/USD	0.7365	-0.2%	Money Market (%)			FTSE	6996	-0.4%
NZD/GBP	0.5013	-1.0%	EUR/USD	1.182	0.2%	90 Day BB	0.47	0.02	CAC-40	6532	-0.7%
NZD/CAD	0.8766	-0.2%	USD/JPY	109.7	-0.6%	OCR	0.25	0.00	DAX	15519	-0.6%
NZD/CHF	0.6364	-0.7%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	25086	-4.2%
NZD/HKD	5.419	-0.5%	NZ	1.66	0.03	1yr	0.82	0.00	Nikkei	27970	0.5%
NZD/SGD	0.9472	-0.4%	US	1.23	-0.06	2yr	1.06	0.00	ASX200	7431	0.5%
NZD/CNH	4.543	-0.7%	Aust	1.22	0.03	5yr	1.44	-0.01	NZX50	12590	-0.7%

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