

## Kiwi's wings clipped again

**The most eye-catching development overnight has been a ½ cent fall in the NZD/USD** to around 0.6990. A stronger USD is mostly responsible, with all G10 currencies feeling the effects. But the commodity currencies – AUD, CAD, and NZD – have tended to fall by more than most. This is slightly bizarre given commodity prices have actually *increased* overnight. The Bloomberg commodity price index is up around 0.4% with WTI oil prices up 0.7%.

**The recent NZD sell-off continues to run against the grain of improving medium-term fundamentals.** As we noted yesterday, our estimated NZD/USD 'fair-value' range is sitting up around 0.7300-0.7700. Near term, Friday's US employment report holds the key. A result stronger than the 700k June jobs gain analysts expect could further embolden the USD and weigh on the NZD/USD further.

**Outside of currency markets, trade was a little more choppy and directionless.** Share-markets continued to push higher with the S&P500 (+0.1%) once again making a fresh record high, and European indices more positive (Eurostoxx 50 +0.4%). Bond markets were largely unmoved. Economic data released generally impressed (see below), but didn't spur much reaction. This could be a sign that the blockbuster global recovery is increasingly fully priced, or it could just be the usual pre-US employment data torpor.

**As noted above, economic data released overnight remained upbeat.** US consumer confidence surged to a 15-month high and well above street expectations (157.7 vs. 144.3). Economic re-opening, fiscal largesse, and an improving labour market remain important drivers of the more upbeat US consumer. European economic confidence also beat expectations in June (117.9 vs. 116.5 expected).

**Meanwhile, housing markets everywhere continue to surge,** with NZ having the dubious honour of leading the charge on this front. UK Nationwide house prices rose to 13.4% yoy in June from 10.9% the prior month. In the US, the S&P/Core Logic house price index showed annual house price inflation hitting the highest level in 15 years at 14.9% yoy (expectations: 14.7%). The drivers of the US housing boom sound suspiciously familiar – ultra easing monetary policy and a shortage of housing supply.

**Speaking of which, we released a [note](#) yesterday exploring the sensitivity of mortgage borrowers and the economy more generally to higher mortgage rates** over the coming years. We find that households, in aggregate, have a reasonable amount of buffer to cope with higher mortgage rates. On our calculations, aggregate debt servicing costs and housing gearing levels are at the lowest levels on record. There are some sensitive areas though, such as new entrants to the housing market.

**Day ahead:** The final June ANZ business confidence survey will be released at 1pm with soaring inflation expectations and pricing intentions once again likely to remain centre stage. The preliminary survey released earlier in the month saw the former rise to 2.3% and the latter hit a fresh all-time high.

Australian has credit aggregates (CBA expect a 0.3% mom lift in credit) and Chinese PMIs are released at 1pm (NZT). Tonight, Eurozone inflation figures are expected to show CPI inflation easing off May's highs in June (to 1.9% yoy headline, 0.9% core) and ADP employment in the US will provide the usual curtain-raiser to Friday's US Payrolls.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6992	-0.7%	NZD/SEK	5.958	-0.6%	NZX WMP	3855.0	0.5%	Dow	34292	0.0%
NZD/AUD	0.9309	0.0%	NZD/DKK	4.369	-0.5%	Gold \$/o	1761.5	-1.0%	S&P 500	4290	0.0%
NZD/EUR	0.5875	-0.5%	NZD/THB	22.4	-0.2%	WTI Oil \$/b	73.0	0.1%	NASDAQ	14528	0.2%
NZD/JPY	77.30	-0.8%	AUD/USD	0.7512	-0.7%	<b>Money Market (%)</b>			FTSE	7088	0.2%
NZD/GBP	0.5049	-0.5%	EUR/USD	1.190	-0.2%	90 Day BB	0.34	0.00	CAC-40	6567	0.1%
NZD/CAD	0.8665	-0.3%	USD/JPY	110.6	-0.1%	OCR	0.25	0.00	DAX	15691	0.9%
NZD/CHF	0.6437	-0.6%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	28994	-0.9%
NZD/HKD	5.428	-0.7%	NZ	1.77	-0.06	1yr	0.49	0.00	Nikkei	28813	-0.8%
NZD/SGD	0.9404	-0.6%	US	1.47	0.00	2yr	0.79	0.01	ASX200	7301	-0.1%
NZD/CNH	4.520	-0.5%	Aust	1.55	-0.05	5yr	1.37	-0.03	NZX50	12640	0.3%

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