

## Reading the tea leaves for taper signs

**At the weekend US Fed Chairman Powell spoke at the Jackson Hole central bank (virtual) gathering**, with all the focus on comments the Chair had to say about the changes of the Fed tapering its asset purchases. The Fed's 'substantial further progress' test has been met for inflation. But, unlike inflation, the US labour market has not yet met that test. Powell said "we have much ground to cover to reach maximum employment," also noting the spread of the Delta variant. In sum, the Fed is getting closer to meeting the test to announce a tapering of asset purchases. Our CBA colleagues' view is that the Fed implements tapering in October. But in order to gather a consensus, the FOMC leadership may be willing to compromise with a September announcement and a November implementation. This tapering view is in part based on the upcoming August Payrolls figure delivering a strong outcome – and we expect it will be of around 800k jobs growth. A risk to our view of an announcement of tapering in September is the spike in infections and deaths in the US.

**In US economic data**, personal income rose 1.1% in July, much stronger than expected (survey: +0.2%). Personal spending lifted 0.3% in the month, in line with expectations. The core Private Consumption Expenditure deflator rose 0.3% in July (survey: +0.3%) to be up 3.6% on a year ago. The University of Michigan consumer confidence index eased from 81.2 to 70.3 in August (survey: 70.8).

**US sharemarkets** rose on Friday, with the abovementioned economic data encouraging investors. The Dow Jones index lifted 0.7% and the S&P 500 index gained 0.9% to record highs. The Nasdaq index rose even more, up 1.2% to also set record highs. Over the week, the Dow rose by 1%; S&P 500 rose by 1.5%; and the Nasdaq rose by 2.8%. **European sharemarkets** were also firmer on Friday led by a 1.9% lift in mining stocks. The pan-European STOXX 600 index rose by 0.4%. The German Dax rose by 0.4% and the UK FTSE index rose by 0.3%. In London trade shares in Rio Tinto rose by 1.7% and shares in BHP rose by 2.2%. The **New Zealand sharemarket** was 0.1% higher Friday and up another 0.9% over the week. Friday's gains were led by Vista Group International.

**US Treasury prices** rose on Friday (yields lower). US 10-year yields fell by 4 points to 1.31%. And US 2-year yields fell by 2 points to 0.219%. Over the week, US 10-year yields rose by 6.5 points but US 2-year yields were down 1 point. **NZ 10-year** yields were up 12 basis points on the previous week.

**FX comment:** Major currencies were firmer against the US dollar in European and US trade. The NZD starts the week trading near the familiar 0.7000 level against the USD, and above 0.9550 against the AUD.

**Global oil prices** rose by around on Friday as US oil producers began to shut production facilities in the Gulf of Mexico ahead of the expected arrival of a hurricane. The Brent crude price rose 2.3% to US\$72.70 a barrel, taking prices up 11.5% over the week.

**Day ahead:** No local releases today, and the latest COVID developments and announcements will be the key focus. In Australia, business indicators data are due. In the US, pending home sales and manufacturing data are released.

**Week ahead local:** ANZ releases the full August month business outlook survey results on Tuesday 31st August at 1pm. NZ discovered the Delta strain of COVID in its community on Tuesday 17th of August, and NZ was immediately plunged into a very strict Alert Level 4 lockdown. ANZ may have already received the majority of its responses to its August survey prior to August 17th, so insights into the business confidence reaction may be limited. We expect New Zealand's Terms of Trade eased 1.3% over Q2 (Thursday). Despite surging agricultural commodity prices over the first half of 2021, the monthly trade data from Stats NZ suggest those gains aren't yet filtering through to the export sector. On the other hand, we expect import prices to have made more substantial gains (+1.5%), driven by higher freight costs and rising energy prices. **Week ahead offshore:** Australia's Q2 21 GDP figures are scheduled for Wednesday. And as usual the remainder of the partial data (public spending, company profits, inventories and net exports) will be released on Monday and Tuesday. Our preliminary assessment is that real GDP rose by 0.4% over Q2 21. Lockdowns over the quarter will have had an impact on production. The ISM manufacturing index will be the release to watch in the US on Thursday. Already-released regional surveys moderated across the board in August. Once again, sub-components including prices and order backlogs will be closely watched. Nevertheless, the ISM manufacturing index should remain consistent with an ongoing expansion in the manufacturing sector. We expect another robust Non-farm Payrolls report on Friday, anticipating 800,000 new jobs were added in the US economy during August, which should lower the unemployment rate to 5.2%. In Europe the CPI for August will be released Tuesday. We expect headline CPI lifted further above the ECB's target in August. However, the rise largely comprises base effects and certain re-opening price increases. **Author:** [chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6997	-0.3%	NZD/SEK	6.050	-0.2%	NZX WMP	3540.0	0.0%	Dow	35456	0.7%
NZD/AUD	0.9577	-0.2%	NZD/DKK	4.412	-0.3%	Gold \$/o	1817.6	1.4%	S&P 500	4509	0.9%
NZD/EUR	0.5935	-0.2%	NZD/THB	22.8	-0.2%	WTI Oil \$/b	68.7	2.0%	NASDAQ	15130	1.2%
NZD/JPY	76.85	-0.3%	AUD/USD	0.7307	-0.1%	<b>Money Market (%)</b>			FTSE	7148	0.3%
NZD/GBP	0.5086	-0.3%	EUR/USD	1.179	0.0%	90 Day BB	0.46	0.01	CAC-40	6682	0.2%
NZD/CAD	0.8832	0.4%	USD/JPY	109.8	0.0%	OCR	0.25	0.00	DAX	15852	0.4%
NZD/CHF	0.6412	0.3%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	25408	0.0%
NZD/HKD	5.460	0.0%	NZ	1.82	0.05	1yr	0.96	0.01	Nikkei	27641	-0.4%
NZD/SGD	0.9418	-0.3%	US	1.31	-0.04	2yr	1.29	0.02	ASX200	7488	0.0%
NZD/CNH	4.522	-0.3%	Aust	1.20	0.00	5yr	1.64	0.01	NZX50	13060	0.0%

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