

Keep calm and carry on

Unsurprisingly, the key domestic headlines yesterday were all on the COVID front. Yesterday, the government announced an extension to the lockdown, but the news was widely anticipated so didn't have a major impact on financial markets. The entirety of New Zealand will remain at Alert Level 4 until at least 11.59pm Friday the 27th, and Auckland until at least 11.59pm Tuesday the 31st. Around 108,000 tests have been taken in Auckland alone over the past week (circa 6% of the region's population), and the delay in reducing alert levels in the region will allow time to conduct further testing, give contact tracers time to identify further contacts, and allow 14 days to elapse from the exposure events the government is most concerned about.

Local recap: The NZ sharemarket remains little-phased by the ongoing alert level change – having lifted 1.4% last week, it gained another healthy 0.95% yesterday. Aussie shares also gained 0.39%, despite PMI data that showed activity slowing amid the ongoing turmoil in Sydney. Those moves reflected a broader trend yesterday, which saw most Asia-Pacific equities makes gains off the back of a risk-on session. NZ bond and swap yields were both little changed over the day.

In other local news yesterday, RBNZ officials have been on the wires stressing that OCR hikes are probably still on the agenda despite our new lockdown. In reference to the move up alert levels, Chief Economist Yuong Ha stated "we don't see it as a game-changer in the sense that our underlying economic analysis and views should be thrown out of the window and we should start again," implying that the Bank expects inflationary pressure to continue strengthening and the labour market to stay resilient. Markets continue to expect the RBNZ will act before the end of the year, with 35bps of hikes priced by November. That's still a little on the light side of things given the signals we've had from both Ha and Governor Orr of late, though uncertainty remains high.

Risk sentiment has been positive overnight, with sharemarkets making gains amid the news the US FDA has approved a new COVID-19 vaccine for use. As of the time of writing, the Dow is up 0.74%, the S&P500 a sizable 1.04% and the tech-heavy Nasdaq has outperformed with a 1.61% gain. European equities generally haven't gained as much, but are also in positive territory (Pan-Euro Stoxx +0.70%, FTSE +0.30%, German DAX +0.28%).

Unsurprisingly given that positive tone, commodity markets have made gains. Brent Crude is up about 5.4% around the USD\$68.72 a barrel. Other energy commodities and metals are generally higher too, with the notable exception of iron ore, which is down 1.36%.

There have been mixed moves in bond markets overnight. Treasury yields in the US are slightly lower, albeit with the curve under steepening pressure. As at the time of writing, the 10-year Treasury yield sits at 1.252%. By contrast, European government bond yields are higher across the board.

FX Update: In line with the usual risk-on trend, the safe-haven USD and JPY have been the weakest performers overnight, losing ground against the rest of the G10. Conversely, commodity currencies like CAD, AUD and NZD have made gains. USD/NZD has advanced to trade just shy of 0.6900, while NZD/AUD has pared back slightly to just below 0.9560.

Overnight Data Wrap: In the US, the Chicago Fed's National Activity Index massively outperformed expectations (0.53 vs a surveyed 0.12). PMI data was a bit below expectations, but still well in expansionary territory. US existing home sales also strong (5.99m vs mkt: 5.83m). Conversely, European consumer confidence data were on the soggy side (-5.3 vs mkt: -4.9).

Day ahead: On the local front, Q2 Retail Sales data are out at 10.45am – we expect a 2% qoq lift (mkt: 2.5%), but obviously the data predates the recent step-up alert levels and all its attendant implications for consumer spending. Given most data coming up on the calendar will carry a significant lag, NZ COVID news will be a big driver for markets, so keep an eye on the headlines. Weekly consumer confidence data are the only morsel of data out across the Tasman today. Overnight in the US, new home sales and the Richmond Fed's manufacturing indices are due. **Author:** nathaniel.keall@asb.co.nz

Currencies			Commodities			Equities					
NZD/USD	0.6895	1.1%	NZD/SEK	6.007	0.0%	NZX WMP	3545.0	-0.6%	Dow	35347	0.8%
NZD/AUD	0.9556	-0.2%	NZD/DKK	4.365	0.6%	Gold \$/o	1803.2	1.2%	S&P 500	4484	1.0%
NZD/EUR	0.5870	0.6%	NZD/THB	22.9	0.7%	WTI Oil \$/b	65.8	5.6%	NASDAQ	14941	1.6%
NZD/JPY	75.61	0.3%	AUD/USD	0.7214	1.3%	Money Market (%)			FTSE	7109	0.3%
NZD/GBP	0.5022	0.3%	EUR/USD	1.175	0.4%	90 Day BB	0.39	0.00	CAC-40	6683	0.9%
NZD/CAD	0.8725	-0.3%	USD/JPY	109.7	-0.1%	OCR	0.25	0.00	DAX	15853	0.3%
NZD/CHF	0.6291	0.6%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	25110	1.0%
NZD/HKD	5.373	1.0%	NZ	1.69	-0.01	1yr	0.83	-0.01	Nikkei	27494	1.8%
NZD/SGD	0.9349	0.6%	US	1.25	0.00	2yr	1.18	0.01	ASX200	7490	0.4%
NZD/CNH	4.466	0.6%	Aust	1.10	0.02	5yr	1.56	0.00	NZX50	13064	1.0%

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