

US inflation whipsaws NZD/USD

- **Stronger-than-expected US inflation figures whipsawed inflation-obsessed US markets overnight.** There's been little *net* change in US interest rates and G10 currencies, but that masks significant volatility through the night. Starting around 0.6300, the NZD/USD traded all the way up to 0.6380 before retreating all the way back down.
- **Investors initially took fright at the stronger US headline inflation print** (0.3% m/m vs. 0.2% expected), with a range of (arguably more important) core measures also beating expectations. CPI (ex-food & energy) lifted 0.6% m/m or 6.2% y/y. US 10-year bond yields spiked back up through 3.00%, bolstering sentiment towards the USD. Those moves faded as the night wore on though, with markets apparently taking some comfort from the fact it still appears that inflation has peaked. Even though the annual rate beat expectations (8.3% vs. 8.1%), it's still down on last month's 8.5%, and looks set to creep lower in coming months. It also doesn't seem likely the Fed will split hairs over an inflation surprise of a few tenths.
- **Comments from Atlanta Fed President Bostic appeared to line up with market expectations of at least two more consecutive 50bps hikes** in the Fed Funds rate. He wants 50bps lifts until the 'neutral' rate is reached (thought to be 2.0-2.5%) and said he's open to "moving more" (on interest rates) if inflation doesn't behave itself.
- **Across the Atlantic the ECB continues to slowly complete its own policy U-turn.** Bloomberg is reporting that ECB policy-makers are "increasingly embracing a scenario of taking interest rates above zero before the end of the year." A July rate hike is already expected but several more would be required to get the -0.5% deposit rate above zero before the end of the year.
- **The 7-day average of new Covid cases in China has fallen by more than half since late April** and a Shanghai official said yesterday there was "basically no community spread" in half of the city's districts. Regardless, as long as China sticks to its Covid Zero goal, the economy remains vulnerable to a sharper slowdown and risk assets will struggle to sustain a meaningful rally. Encouragingly, the PBoC has room to reflate more aggressively because underlying inflation in China is contained. Core inflation, excluding food and energy, eased to just 0.9% y/y in April.
- **FX update:** The wash-up from US inflation figures has seen the USD lose some of its lustre, with the JPY being the most obvious beneficiary of the late session decline in US interest rates (USD/JPY is very interest rate sensitive). As noted earlier, the AUD/USD and NZD/USD have both completed a volatile round trip, and now trade bang on where they were this time yesterday (0.6930 and 0.6290 respectively).
- **Day ahead:** Finance Minister Robertson will also deliver a pre-Budget speech, and ASB's Mark Smith will send out his Budget preview note in its wake. There's also local food price, housing and inflation expectations figures out for the data-watchers. The latter have the most potential to be market-moving (risk skewed towards higher interest rates) given the RBNZ's laser-like focus on inflation expectations. The near-dated expectations figures are near certain to rise given spiking actual inflation. We'd more keep an eye on the extent to which longer-term (5,10 year) expectations shift up as key for RBNZ cash rate expectations. Tonight, first quarter GDP data out of the UK is expected to show a post-Omicron boost in expanding 0.9% q/q.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6289	-0.1%	NZD/SEK	6.336	0.0%	NZX WMP	3705.0	-0.3%	Dow	31834	-1.0%
NZD/AUD	0.9067	0.0%	NZD/DKK	4.449	0.1%	Gold \$/o	1852.9	0.8%	S&P 500	3931	-1.7%
NZD/EUR	0.5981	0.2%	NZD/THB	21.8	0.0%	WTI Oil \$/b	105.7	6.0%	NASDAQ	11364	-3.2%
NZD/JPY	81.79	0.6%	AUD/USD	0.6937	0.0%	Money Market (%)			FTSE	7348	1.4%
NZD/GBP	0.5136	0.6%	EUR/USD	1.052	-0.2%	90 Day BB	2.13	-0.02	CAC-40	6270	2.5%
NZD/CAD	0.8174	-0.3%	USD/JPY	130.1	-0.3%	OCR	1.50	0.00	DAX	13829	2.2%
NZD/CHF	0.6253	-0.5%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	19825	1.0%
NZD/HKD	4.937	-0.1%	NZ	3.76	-0.04	1yr	3.26	-0.08	Nikkei	26214	0.2%
NZD/SGD	0.8744	-0.1%	US	2.93	-0.06	2yr	3.75	-0.09	ASX200	7065	0.2%
NZD/CNH	4.252	0.1%	Aust	3.51	-0.06	5yr	3.98	-0.03	NZX50	11233	0.0%

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