

Another day, another sell-off

- **Overnight, sentiment has been poor, as gloom and risk aversion have again set in among markets.** Sharemarkets spent another session the red (a sixth consecutively), with the major Wall Street benchmarks all down 1.7-1.8% after an attempt at a comeback early on in the piece. Soggy economic data didn't help matters, with the UK economy contracting 0.1% over March. All-up, the S&P500 is down about 19% from its peak, while the Nasdaq has fallen a whopping 29% - close to the technical definition of a bear market.
- **Investors have been ducking for cover in the usual safe-haven asset classes.** The USD has made solid gains against all of its G10 peers, with the exception of its safe-haven peer JPY, which has performed even better. NZD/USD has edged down about a third of a cent to 0.6230, while a larger dip for the Aussie means NZD/AUD has gained a third of a cent to round 0.9090.
- **Similarly, Treasuries have rallied (yields lower).** Yields are down circa 3-9bps across the board, with the steepest falls concentrated in the front end of the curve. Government bond yields across Europe fell more sharply, down by double digits (circa 8-18bps). That reflects a less certain growth outcome given the weak data print in the UK economy and the cloudy headlines over Ukraine overnight (Putin warning NATO the conflict could turn 'catastrophic').
- **The Finance Minister gave his Budget 2022 teaser yesterday (arguably the week's second most anticipated trailer after the preview for [Avatar 2](#)).** No specific initiatives were revealed, with the headlines instead focused around the signalled prioritisation in health and climate spending, and the finance minister deflecting a volley of questions about spending levels given the economy's acute capacity and inflationary pressures. In our view, it's important to distinguish between broad-based stimulus (that'll likely be on the way out in this 'post crisis' budget) and more targeted investments needed to build state capacity and bolster economic resilience from future health or environmental shocks. As ever, the devil is in the details.
- **You can read our own full [Budget preview](#) here.** In short, the starting point for our fiscal position looks good but we expect a later return to surplus given recent global headwinds. There are a couple of new fiscal rules incoming, while a new means of measurement will show much lower public debt (which is already pretty low compared to our global peers).
- **There was a tonne of local data yesterday – [REINZ housing data](#), food prices and RBNZ inflation expectations – but all simply re-enforced our existing outlook.** The former showed house prices dipping 0.8% over April and house sales creeping up 0.7%, but obsessing over the details is pettifogging: prices and sales are down circa 5% and 20% on their peaks, with higher mortgage rates, rising supply, and tighter credit conditions set to keep the downward pressure on.
- The RBNZ's inflation survey showed short- and medium-term expectations edging up (1-year ahead: 4.4% -> 4.88%, 2-yr: 3.27% -> 3.29%, 5-yr: 2.30% -> 2.42%), but the longer-term 10-year ahead of expectation at 2.11% and actually *down* slightly. The Bank can be pleased longer-term expectations aren't becoming unanchored yet, but will be mindful of the need to crack on with further tightening (which was already the line). Similarly, food prices rose 0.1% in April, a shade lower than expected, but pretty marginal in terms of our own inflation forecast (still well placed to head north of 7%).
- **Day ahead:** There's nothing major diarised – enjoy the weekend folks. nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6235	-1.0%	NZD/SEK	6.337	-0.1%	NZX WMP	3675.0	-0.8%	Dow	31730	-0.3%
NZD/AUD	0.9093	0.2%	NZD/DKK	4.472	0.5%	Gold \$/o	1822.9	-1.6%	S&P 500	3928	-0.2%
NZD/EUR	0.6010	0.4%	NZD/THB	21.7	-0.7%	WTI Oil \$/b	106.1	0.4%	NASDAQ	11371	0.1%
NZD/JPY	80.05	-0.5%	AUD/USD	0.6858	-1.2%	Money Market (%)			FTSE	7233	-1.6%
NZD/GBP	0.5113	-0.5%	EUR/USD	1.038	-1.3%	90 Day BB	2.13	0.00	CAC-40	6206	-1.0%
NZD/CAD	0.8134	-0.5%	USD/JPY	128.4	-1.2%	OCR	1.50	0.00	DAX	13740	-0.6%
NZD/CHF	0.6260	-0.4%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	19380	-2.2%
NZD/HKD	4.895	-0.9%	NZ	3.70	-0.06	1yr	3.07	-0.19	Nikkei	25749	-1.8%
NZD/SGD	0.8719	-0.4%	US	2.86	-0.06	2yr	3.64	-0.12	ASX200	6941	-1.8%
NZD/CNH	4.257	0.5%	Aust	3.43	-0.08	5yr	3.86	-0.12	NZX50	11177	0.0%

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