

## Markets in positive mindset ahead of Biden speech

**Markets traded with a generally positive tone ahead of this morning's speech by US President Biden on US infrastructure spending.** According to Bloomberg reports, the package will be approximately USD2.25 trillion and will largely be funded by tax hikes on corporate earnings (from 21% to 28%). While fiscally neutral it is expected to add to growth and inflationary pressures at the margin. Bloomberg reported that next week the IMF are set to revise up its forecasts for global GDP growth in 2021 (currently 5.5%) and 2022 (3.5%). There was good news on the vaccine front with the Pfizer vaccine found to be 100% effective in testing in preventing Covid-19 in kids aged 12-15.

**Despite pending increase in US corporate tax rates, surging technology stocks pushed the S&P500 to record highs.** European equities were a fraction lower as were Asian equity indices, with NZ (NZSX 50 +0.9%) and Australia (ASX 200 +1.5%) indices bucking the trend. **US Treasury yields modestly firmed on their open**, with a curve steepening bias (10Y 1.73%) but remained below late March peaks. European 10-year bond yields were a fraction lower, although the stronger than expected final Q4 1.3% rise in GDP (-7.3% yoy) likely supported UK yields (10Y 0.84%). Australian yields initially firmed until increased buying saw bond yields end the session little changed (10Y 1.80%), with a modest widening to swaps. NZ bond yields nudged up (10Y 1.83%), with the narrowing in swap spreads. **Oil prices fell after the OPEC+ meeting concluded without an oil policy recommendation**, despite expectations that production cuts would be extended till May.

**Comments from 2021 FOMC voters were generally positive.** New York Fed President Williams was "optimistic" about the overall economy given the rapid pace of vaccine rollouts. Richmond Fed President Barkin was "very bullish" on US growth in 2021 and positive on prospects for 2022 and 2023. Atlantic Fed President Bostic was watching for "upside risks" with the US economy potentially adding 1m jobs per month in the coming months.

**Data was generally on the softer side of expectations.** The March ADP report showed a 517k increase in US employment (mkt:550k), with markets next expecting a 650k print for March Non-farm Payrolls on Friday. Pending home sales fell 10.6% in February (-2.7% yoy). Eurozone March headline CPI inflation (+1.3% yoy) and core inflation (0.9% yoy) slightly undershot market expectations. However, March PMIs for China rose by more than expected (manufacturing 51.9, non-manufacturing 56.3), signalling improving momentum.

**Yesterday, the RBNZ announced as of now it will relax restrictions on dividends to shareholders**, enabling banks to pay up to a maximum of 50% of their earnings. The 50% dividend restriction will remain in place until July 2022, at which time dividend restrictions will be fully relaxed. From then, however, capital requirements will start to ratchet up for NZ locally incorporated banks. Given how well the banking system has coped with the Covid-19 hit, we are not sold on the case for hikes in higher capital requirements and believe this could generate a contractionary impulse to the economy.

**The full March reading of the NZ ANZ business outlook showed a modest fall in most of the activity metrics from the survey (apart from climbing employment intentions) pointing to slowing momentum.** Pricing metrics from the survey remained elevated (pricing intentions +47.3, cost expectations +73), consistent with ASBs [view](#) of a pick-up in CPI inflation over 2021. Australian February building approvals (+21.6% mom) and housing approvals (+15.1% mom) rebounded from their January declines, supported by the strengthening housing market backdrop and the Home Builder program. However, Australian housing credit was low at just 0.4% (+3.8% yoy) compared to the 9% annual climb in NZ housing credit.

**FX Update:** There was a mild retracement in the USD index overnight, reversing the recent upward trend, with sterling, CAD, the AUD, and NZD faring well overnight. The NZD briefly popped above 70 US cents having traded in a 0.6960 to 0.7030 USD overnight range. The NZD edged higher against the AUD and is currently just below 92 Australian cents. The improved outlook for global growth and the potential for a new super-cycle in commodities are expected to support commodity currencies, including the AUD and NZD.

**Day/weekend ahead local:** There will be lots going on. ANZ NZ consumer confidence for March (10am) is expected to remain below historical averages despite respondents likely revising up house price expectations to record highs. The NZ Government Financial Statements for the 8-months to February (10am) should show the tax take comfortably above the Treasury December forecasts. NZDM is due to tender \$350m of 2025, 2031, 2033 and 2040 NZ Government bonds. We expect a solid result given the recent lift in yields and the reduced supply backdrop with spreads with swaps to widen.

**Day/weekend ahead offshore:** From around 9:30am this morning, President Biden is due to deliver his long-awaited speech on US infrastructure spending. Australian manufacturing PMIs, February retail trade (mkt: -1.1% mom), March house price data prior +2.0% mom) and housing lending data is released. A slew of manufacturing PMI data is out for China, the UK, Eurozone, US (ISM manufacturing and manufacturing PMI), along with US initial jobless claims (mkt: 675k) and March payrolls data (mkt: +650k, prior 379k). There are a couple of speeches by the Fed's Harker and Bostic. Have a safe and enjoyable Easter Break. [mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6992	0.1%	NZD/SEK	6.100	0.0%	NZX WMP	3830.0	0.0%	Dow	33109	0.1%
NZD/AUD	0.9192	0.0%	NZD/DKK	4.432	0.0%	Gold \$/o	1710.2	1.5%	S&P 500	3988	0.7%
NZD/EUR	0.5958	0.1%	NZD/THB	21.8	-0.5%	WTI Oil \$/b	59.6	-1.5%	NASDAQ	13289	1.9%
NZD/JPY	77.41	0.1%	AUD/USD	0.7606	0.1%	<b>Money Market (%)</b>			FTSE	6714	-0.9%
NZD/GBP	0.5070	-0.3%	EUR/USD	1.174	0.1%	90 Day BB	0.35	0.00	CAC-40	6067	-0.3%
NZD/CAD	0.8794	-2.6%	USD/JPY	110.7	0.4%	OCR	0.25	0.00	DAX	15008	0.0%
NZD/CHF	0.6604	0.4%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	28378	-0.7%
NZD/HKD	5.436	-3.5%	NZ	1.81	0.05	1yr	0.36	0.01	Nikkei	29179	-0.9%
NZD/SGD	0.9403	-0.1%	US	1.73	0.03	2yr	0.48	0.02	ASX200	6791	0.8%
NZD/CNH	4.591	0.0%	Aust	1.86	0.01	5yr	1.13	0.02	NZX50	12561	0.9%

## ASB Economics &amp; Research

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	<a href="mailto:nick.tuffley@asb.co.nz">nick.tuffley@asb.co.nz</a>	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	<a href="mailto:mark.smith4@asb.co.nz">mark.smith4@asb.co.nz</a>	(649) 301 5657	
Senior Economist	Mike Jones	<a href="mailto:mike.jones@asb.co.nz">mike.jones@asb.co.nz</a>	(649) 301 5661	
Senior Economist	Jane Turner	<a href="mailto:jane.turner@asb.co.nz">jane.turner@asb.co.nz</a>	(649) 301 5853	
Senior Economist, Wealth	Chris Tennent-Brown	<a href="mailto:chris.tennent-brown@asb.co.nz">chris.tennent-brown@asb.co.nz</a>	(649) 301 5915	
Economist	Nat Keall	<a href="mailto:nathaniel.keall@asb.co.nz">nathaniel.keall@asb.co.nz</a>	(649) 301 5720	
Publication and Data Manager	Judith Pinto	<a href="mailto:judith.pinto@asb.co.nz">judith.pinto@asb.co.nz</a>	(649) 301 5660	

ONE STEP AHEAD

Click here to read the latest  
ASB Economic Reports<https://reports.asb.co.nz/index.html>[@ASBMarkets](https://twitter.com/ASBMarkets)ASB Economics  
ASB North Wharf, 12 Jellicoe Street, Auckland

## Important Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.