

Markets end May with a whimper

Holidays in the US and UK have delivered a quiet start to the week for global financial markets. Share markets or share market futures in the case of the US, are slightly softer. In currencies, a marginally weaker USD has tended to ‘float all boats’, including the NZD/USD which is up around 0.7275. Bond yields are barely changed. The MSCI index of global stocks looks set to end May around 1.4% higher, the fourth consecutive monthly gain for the index.

There hasn’t been a lot of news to drive markets. The OECD revised up its global growth forecasts, but with such agencies always a little behind market pricing & other forecasters, there wasn’t a lot of reaction. The agency now forecasts global growth of 5.8% this year and 4.4% next, up from its prior forecasts of 5.6% and 4.0% released in March.

In Europe, Euro area CPI data delivered the expected pick-up in inflation. German inflation picked up to 2.4% in May from 2.1% in April, slightly above expectations. But with core inflation for the euro area expected to print on the low side tonight, there is nothing here to threaten the ECB’s accommodative monetary policy stance. Indeed, on current information, the ECB looks likely to be at the back of the central bank pack when it comes to reducing stimulus.

Sky-rocketing cost pressures and pricing intentions remained the stand-out features of the latest ANZ business confidence survey. The full May edition, released yesterday, saw pricing intentions lift to a fresh record high. Inflation expectations rose to 2.22%, a 2½ year high. For the first time in over a decade, there is genuine concern that current supply shocks and price movements could deliver a sustained lift in inflation. It’s still unclear how persistent the coming inflation spike will be, but the confidence data is nevertheless supportive of the RBNZ’s ditching of its easing bias last week, and our move to forecast an earlier (May 2022) RBNZ rate hike.

Despite the cost-push coming through, it was encouraging to see firms’ profit and activity expectations still lifting in May. The latter is now above the 10-year average. Stepping back, business confidence indicators have surged through April and May, and point to strong economic growth through Q2 2021. We currently have a decent 1.4% qoq lift pencilled in for Q2 GDP. It’s also looking less likely that the Q1 GDP report (released mid-June) will deliver a technical recession.

FX comment: The NZD/USD firmed marginally in line with the generally weaker USD. Our updated estimate of NZD/USD ‘fair-value’ is now sitting at 6-year highs. Our short-term valuation model currently implies a fair value range of 0.7200-0.7600. In the wake of last week’s RBNZ meeting we now see more potential upside for the currency.

Day ahead: We might see some pull-back from April NZ building consents figures after the surge in March. We’ll also get the results of the latest GDT dairy auction tomorrow morning. There’s a string of largely second-tier data out in Australia but all eyes will be on the June RBA policy announcement at 4:30pm. We don’t expect any policy changes at this meeting – the RBA has already signalled the big decisions (QE, yield curve control) will be taken in July. Tonight, the focus will be on the May US ISM survey, to see if it sustained recent lofty levels.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7276	0.3%	NZD/SEK	6.036	0.2%	NZX WMP	4155.0	-0.2%	Dow	34529	0.2%
NZD/AUD	0.9409	0.1%	NZD/DKK	4.426	0.0%	Gold \$/o	1906.9	0.2%	S&P 500	4204	0.1%
NZD/EUR	0.5951	0.1%	NZD/THB	22.7	0.1%	WTI Oil \$/b	66.3	-0.8%	NASDAQ	13749	0.1%
NZD/JPY	79.71	0.2%	AUD/USD	0.7732	0.3%	Money Market (%)			FTSE	7023	0.0%
NZD/GBP	0.5122	0.2%	EUR/USD	1.223	0.3%	90 Day BB	0.32	-0.01	CAC-40	6447	-0.6%
NZD/CAD	0.8778	0.3%	USD/JPY	109.6	-0.2%	OCR	0.25	0.00	DAX	15421	-0.6%
NZD/CHF	0.6540	0.1%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	29152	0.1%
NZD/HKD	5.646	0.2%	NZ	1.80	-0.06	1yr	0.38	0.00	Nikkei	28860	-1.0%
NZD/SGD	0.9613	0.2%	US	1.59	0.00	2yr	0.59	-0.01	ASX200	7162	-0.2%
NZD/CNH	4.637	0.0%	Aust	1.72	0.02	5yr	1.32	-0.03	NZX50	12321	1.1%

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