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ASB

Sentiment snap-back

Financial market sentiment has quickly righted itself following Friday's month-end wobble. The recovery in risk appetite has brought about the expected reaction across markets with equities and commodity prices mostly higher (S&P500 +0.4%, Eurostoxx50 +0.6%, oil +1.4%), volatility indicators like the VIX index retreating a little, and the NZD/USD recovering around 40 pips from its Monday 0.7160 lows.

As we'd noted in yesterday's FX weekly**, the global recovery remains on track and this should keep financial market sentiment on the straight and narrow**. And so it proved to be the case with last night's economic data. The closely-watched US ISM manufacturing index didn't make fresh highs as analysts expected but nevertheless remained very strong at 60.7.

The details were upbeat with the prices paid index notably hitting a 13-year high as material shortages and supply chain disruptions made an impact. Across the Atlantic, the final read on the European manufacturing PMI was revised down slightly to 62.9, but this still marks a 24-year high.

Before anyone got too excited about the read through to inflation, the Fed was there as usual to cut it off at the pass. NY Fed President Williams and chair Powell were on the wires overnight repeating the line that the economic boom underway won't lead to unsustainably high inflation. This might have been the reason bond yields failed to participate in last night's sentiment bounce. The US 10-year yield is flat around 1.61%.

Two of the other factors that have supported the global recovery and hence market sentiment have been easing COVID restrictions and strong corporate earnings, and both were in evidence again overnight. New York, New Jersey, and Connecticut announced most COVID restrictions will end from mid-May, and Germany said people that have been vaccinated will no longer be subject to curfews or social gathering restrictions.

The corporate earnings season, meanwhile, chugs on in impressive fashion. Of the 306 S&P500 companies that have reported to date, 268 have exceeded expectations. Profit growth across the S&P500 has been 53% and across the Eurostoxx 600 it has been 75%, although base effects will be flattering both.

FX comment: Recovering risk sentiment saw the USD back under pressure across the board overnight. The softer USD allowed the NZD/USD to reclaim a 0.7200 handle. We suspect further gains are in store in the short-term if risk sentiment continues to recover.

Day ahead: The Aussie trade balance for March should be another cracker, indeed the largest on record if our CBA friends' forecast is correct. But it shouldn't be particularly market moving as investors look to this afternoon's RBA policy announcement. We don't expect any changes in the various policy measures (cash rate, 2024 forward guidance, yield curve control parameters). The RBA's Statement (released Friday) and a Thursday speech from the Deputy Gov may actually be more interesting/relevant. We expect the RBA to up its economic forecasts. There's nothing on the slate in NZ and a smattering of second-tier data will be released in the US tonight.

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