

NZD/USD tumbles ¾ cent, Lords test evenly poised

The most eye-catching development overnight, apart from Devon Conway's stunning 200 on debut at Lords, has been a sharp sell-off in the NZ dollar. The kiwi fell just under a cent in the early hours of this morning and is currently trading around 0.7140 – the lowest since mid-April. The AUD/USD suffered a similar fate - NZD/AUD is essentially unchanged.

It's mostly been a story of a stronger USD. The DXY index is around 0.6% stronger for the night, which has seen all major FX pairs notch up declines. US economic data released overnight continued to point to a super-charged US recovery, and markets are growing increasingly convinced the Fed will soon start to talk more readily about tapering its asset-buying programme. Dallas Fed President Kaplan said overnight he'd welcome such a conversation "sooner rather than later", although the impact was blunted by the fact Kaplan is a known hawk and has run the line before.

The US ISM Services index defied street expectations for an unchanged result in May and blasted up to a fresh all-time high (70.4 vs. 70.1 expected). Meanwhile, jobs data suggested the labour market recovery is proceeding at a rapid clip, boding well for tonight's payrolls release. ADP employment numbers printed miles stronger than forecasts (978k vs. 650k expected) and jobless claims fell below 400k/week for the first time since COVID struck (385k vs. 387k expected). The reaction to all this in interest rate markets was a little muted (US 10-year yield +3bps to 1.62%), with FX markets seemingly more interested.

A wobble in general risk sentiment provided an extra kicker for the NZD and AUD, helping to (but not fully) explain their clear underperformance overnight. US stocks opened nearly 1% lower, recoiling against the prospect of less easy monetary policy in future. But reports President Biden has offered to ditch his proposed corporate tax hike as a concession to try and pass his infrastructure package saw risk appetite improve as the session wore on – although this didn't flow through to non-USD currencies, which remain close to their overnight lows. The S&P500 is currently down 0.3% with the NASDAQ off closer to 1%. Commodity prices were essentially flat.

Yesterday's slug of antipodean data provided another welcome dose of economic warmth. Trade figures showed the impressive Aussie trade surplus widening still further in April, although it did print slightly back from market expectations (A\$8b vs. \$8.25b expected). Aussie retail sales notched up a solid 1.1% increase over April, following a similarly-sized increase the prior month. Sydney-siders chowing down on the NSW Government's 'Dine and Discovery vouchers' was evidently a big spending driver. Finally, the ANZ NZ commodity price index duly followed the more-timely ASB measure and confirmed NZ's commodity export prices hit a fresh all-time high in May. It's a great news story but risks ultimately bringing a higher NZD with it.

Day ahead: We expect this morning's NZ Q1 construction activity numbers to lift 2.8% - bouncing back from the previous quarter's 1.5% fall. Building consents point to something stronger, but capacity constraints are limiting the ability of the sector to meet demand. In Australia, another 2%-odd monthly lift in housing lending is expected from April data, as the Aussie housing market continues to hit its straps.

Tonight brings the usual attention on monthly US employment figures. A whopping 650k are expected to have been added in May as the US labour market recovery continues. The consensus expects a further dip in the unemployment rate to 5.9% (from 6.1%, COVID peak 14.8%). Markets will be more sensitive to an upside surprise.

Still, the marquee event is obviously the 3rd day of the NZ v ENG test match at Lords from 10pm this evening (NZT). The match looks evenly poised, with England recovering to 111/2. The Blackcaps will need to remove Joe Root (currently 42*) if they are to regain the upper hand.

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