That's a bit steep!

Globally, yield curve steepening remains the most eye-catching trend in financial markets. And, overnight, there's been new highs reached in various measures of yield curve steepness in the UK, US, and NZ as the 'reflation trade' continues to swirl around markets (essentially rising inflation and global growth expectations).

The difference between US 10-year and 2-year Treasury yields (the so-called 2s10s slope) hit the highest level since 2017 and there were more records in the UK after the surprisingly upbeat Bank of England meeting. The BoE held its policy rate at 0.1% but projected a more rapid recovery this year thanks to the vaccine rollout and associated less restrictive conditions for the UK economy. The latest figures put the UK 3rd in the world (behind Israel & UAE) in the race to vaccinate, with 15.5% of the population having had a vaccine dose. The US is fourth at 10**%.** The FT reported yesterday on the symbolic milestone of the total number of vaccine doses administered (107m) exceeding the number of confirmed COVID cases (105m) for the first time.

The outperformance of the NZ economy has seen the yield curve lift and steepen more than most. NZ markets continued to re-rate RBNZ OCR expectations yesterday in the wake of Wednesday's blockbuster NZ jobs report (and likely fanned a little by the ANZ confidence survey covered below). Implied pricing has shifted such that a 0.25% OCR is now expected right through 2021 with around a 20% chance of an RBNZ hike being delivered by April of 2022.

This is continuing to push particularly long-dated swap yields higher. NZ 10-year swap yields are up 25bps so far this week and the 2s10s measure of yield curve slope is the steepest its been since 2018. All of this will be reducing the pressure on retail interest rates to fall if it continues. And while you could argue markets are perhaps overdue a pullback, we think the *trend* will remain for a steeper curve and upward momentum in wholesale yields given the performance of the economy and the fact the RBNZ is not far from achieving its twin objectives.

Elsewhere overnight, market sentiment has continued to claw back last week's Gamestop-related losses. Stocks are up 0.9% in the US (S&P500) following a strong lead from Europe (Eurostoxx +0.9%) and the VIX index is back down to around 22%. US jobless claims fell by more than expected (779k vs. 830k expected) and, in her first media interview, new Treasury Secretary Yellen reiterated her support for a massive US fiscal stimulus plan.

Yesterday's February (preliminary) ANZ business confidence report was interesting not for the fact firm's activity expectations managed to hold onto January's gains (and remain close to the 10-year average). It was more the surge in cost pressures and attendant lift in pricing intentions that came through in the numbers. Pricing intentions, at 47.9, hit the highest level on record. This points to further short-term momentum in inflation, following the surprise lift in the fourth quarter of 2020. Yes, the Reserve Bank tends to 'look through' any short-term supply-driven impacts on prices, but it adds to the general run of data piling up on the strong side of prior RBNZ expectations, which is helping to fuel the lift in wholesale interest rates.

FX update: The USD continued to push higher against most major currencies overnight. The most obvious exception was GBP/USD, which bounced to 1.3670 after the BoE meeting (see above). AUD also remained in the outperformance camp after further gains in iron ore prices. The stronger USD saw the NZD/USD dragged back down to 0.7150, effectively erasing its gains post Wednesday's labour data. We continue to expect NZD/USD dips to be shallow, with solid support eyed around 0.7100.

Day ahead: Plenty for RBA watchers, although the speeches we've already had this week will have stolen the show somewhat from Governor Lowe's testimony at 11:30am and the RBA Statement on Monetary Policy later this afternoon (1:30). As such, market reaction should be limited. We're expecting a 2% lift in quarterly Q4 Aussie retail volumes (market +1.9%). For NZ bond markets, there will be increased interest in the 2pm RBNZ bond purchase announcement, given the Bank 'tapered' purchases down to $570m/week. It's payrolls Friday in the US, but expectations this time around are for a more modest jobs figure (CBA 0, market +100k) reflecting the restrictions on economic activity put in place during January to control COVID. The US unemployment rate is nevertheless expected to hold at 6.7% for the third straight month.

Author: mike.jones@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7157	-0.5%	NZD/SEK	6.059	0.2%	NZX WMP	3420.0	0.1%	Dow	31010	0.9%
NZD/AUD	0.9421	-0.2%	NZD/DKK	4.449	0.0%	Gold $/o	1792.2	-2.3%	S&P 500	3863	0.9%
NZD/EUR	0.5983	2.9%	NZD/THB	21.5	-0.2%	WTI Oil $/b	56.3	1.0%	NASDAQ	13733	0.9%
NZD/JPY	75.50	4.9%	AUD/USD	0.7597	-0.3%	**Money Market (%)**			FTSE	6504	-0.1%
NZD/GBP	0.5238	0.4%	EUR/USD	1.196	-0.5%	90 Day BB	0.28	0.00	CAC-40	5609	0.8%
NZD/CAD	0.9183	1.9%	USD/JPY	105.5	0.4%	OCR	0.25	0.00	DAX	14060	0.9%
NZD/CHF	0.6470	8.6%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	29114	-0.7%
NZD/HKD	5.549	-0.5%	NZ	1.37	0.03	1yr	0.28	0.00	Nikkei	28342	-1.1%
NZD/SGD	0.9575	-0.2%	US	1.14	0.01	2yr	0.41	0.01	ASX200	6765	-0.9%
NZD/CNH	4.634	0.0%	Aust	1.23	0.05	5yr	0.89	0.03	NZX50	12992	-0.8%

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

https://reports.asb.co.nz/index.html
@ASBMarkets

ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland