Daily Alert
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ASB

Sell in May comes into play as equity investors exit

Markets traded with a modest risk-off tone overnight, with broad-based declines in global stocks and a stronger USD. Leading the move lower in equities were falls in technology stocks in US and European markets as investors queried lofty valuations and whether strong earnings reports could be maintained in light of proposed US corporate tax increases by the Biden administration. The major US technology stocks – Apple, Facebook, Alphabet and Intel – all saw sizeable drops as did technology stocks in Europe. The release of 2nd tier data – US factory orders, durable goods and trade – had little market impact.

Another concern for investors was that the US economy was on an overheating path given the mountain of policy stimulus in place. Likely spooking investors were warnings by US Treasury Secretary Janet Yellen that interest rates may need to rise to prevent US economic overheating in the context of an additional planned USD4 trillion in infrastructure and social spending. Linked to this were indications that much of the increases in US corporate earnings were driven by increasing margins and likely price increases, with almost three-quarters of S&P500 firms that had reported Q1 results thus having widened margins according to Bloomberg estimates.

The action was a little more modest in government bond markets, with Treasury yields a fraction lower (US10Y 1.59%) with a curve flattening bias. The Fed's Kaplan and Daly stuck to the script, with Kaplan believing the jury to be out about the inflation outlook, with US inflation likely to moderate to 2¼% by the end of the year. Daly reiterated that the Fed was a 'long way' from considering policy tightening and it isn't time for the Fed to pare back stimulus.

There was a larger pullback in European yields. Factors such as simmering geopolitical tensions between the West and Russia/China with the June G7 summit looming, soaring cases of COVID-19 in developing countries added to caution by investors. Australian markets yesterday were largely fixated with the RBA decision (see below) with yields closing slightly higher. It was a quiet session for local markets, with local yields edging higher.

Prices from the GDT auction eased 0.7%, but prices for whole milk powder rose 0.7% to a lofty USD4,115 per metric tonne. We maintain our $7.60 kg/ms Fonterra Milk Price forecast for this season and $7.50 for next season. Despite the strengthening USD, commodity prices were generally firmer. The easing of COVID-19 restrictions in the US and Europe were deemed to be supportive for oil prices, with near-term contract prices for Brent and WTI up close to 2% overnight (to USD65.85 and USD66.85 per barrel respectively).

Australian yields ticked up after the RBA held its 0.1% cash rate and 3-year yield targets and reiterated its on hold until 2024 message for the cash rate. **Growth projections were revised up to 4.75% for 2021 and 3.5% over 2022, with the unemployment rate to decline to 5% by end 2021 and 4.5% by late 2022.** Underlying inflation is expected to remain low. The RBA announced it will consider in July whether to retain the April 2024 bond for their yield curve control target or to extend it to be November 2024 maturity. Our CBA colleagues expect that the RBA will maintain the April 24 bond as the target bond for yield curve control and that they will deliver a smaller, but still significant, extension to their bond-buying program (QE3) of AUD50bn over six months.

Courtesy of weaker than expected exports, the Australian March trade surplus narrowed to AUD5,574m. Although our CBA colleagues expect solid trade surpluses to remain over 2021, net exports are expected to detract from Q1 GDP. The Australian housing market continues to sizzle away, with new lending for housing up 5.5% in March (investor lending 12.7% mom). The RBA and APRA are watching developments in the housing market, but both have stressed that the focus is on lending standards and financial stability issues rather than the flow-through to inflation and the labour market.

FX comment: The USD strengthened yesterday and overnight, with the greenback at the top of the G10 currency leader board and the NZD at the bottom. The NZD is currently trading towards the lower part of its 0.7110 to 0.7180 USD overnight range and has eased to 92.6 Australian cents. NZD direction will hinge on the tone of domestic data, with fundamentals in favour of a resilient NZD.

Day ahead: The RBNZ Financial Stability Report (9am), will be perused for how the RBNZ views risks from the housing market, although no announcement on whether the Bank is keen to add further tools to restrict housing lending are likely until the end of this month. We expect the Q1 NZ labour market report (10:45am) to show a flat quarter for employment (mkt: +0.3% qoq), labour force participation to cool to 70% of the labour force (mkt: 70.3%), the unemployment rate to ease to 4.8% (mkt: flat at 4.9%) and for LCI wage inflation to start to firm (+0.5% qoq, +1.6% yoy). Services PMIs, housing credit and building approvals are out for Australia. Services PMIs for Germany (mkt: 50.1), the Eurozone (mkt: 50.3) and US (mkt: 63.1) are out as well as the services ISM (mkt: 64.2) and ADP employment report for the US (mkt: +873k). Speeches by the Fed's Evans, Rosengren and Evans are out overnight. **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7140	-0.8%	NZD/SEK	6.058	0.0%	NZX WMP	4230.0	2.7%	Dow	34068	-0.2%
NZD/AUD	0.9263	-0.2%	NZD/DKK	4.419	-0.5%	Gold $/o	1776.5	-0.9%	S&P 500	4150	-1.0%
NZD/EUR	0.5943	-0.5%	NZD/THB	22.3	-0.6%	WTI Oil $/b	65.7	1.9%	NASDAQ	13600	-2.3%
NZD/JPY	78.05	-0.7%	AUD/USD	0.7707	-0.7%	**Money Market (%)**			FTSE	6923	-0.7%
NZD/GBP	0.5141	-0.7%	EUR/USD	1.201	-0.4%	90 Day BB	0.36	0.00	CAC-40	6252	-0.9%
NZD/CAD	0.8786	-0.7%	USD/JPY	109.3	0.2%	OCR	0.25	0.00	DAX	14856	-2.5%
NZD/CHF	0.6523	-0.6%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	28557	0.7%
NZD/HKD	5.546	-0.8%	NZ	1.68	0.00	1yr	0.36	0.00	Nikkei	28813	-0.8%
NZD/SGD	0.9544	-0.3%	US	1.59	-0.01	2yr	0.47	0.00	ASX200	7068	0.6%
NZD/CNH	4.630	-0.5%	Aust	1.77	0.01	5yr	1.09	0.00	NZX50	12912	1.1%

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