

US data prints confirm the recovery

It was an unusually busy morning on the data front here in NZ yesterday, with both the RBNZ's latest Financial Stability Report and Q1 employment data out. There's more detail on both releases below but the TL:DR summary is that there was little earth-shattering the former, while the latter was a bit stronger than anticipated. Consequently, markets more-or-less looked through the FSR, but there was a bit more movement evident in light of the labour data. Bond yields were higher across the curve, while swap yields also moved up in the aftermath of the result. Still, as ever, context is key – yields across the bond and swap markets haven't yet matched their February and March highs.

There was little change in the RBNZ's FSR, with the bank rolling out similar soundbites to last time. There were no new macro-prudential measures forthcoming, and the assessment of the financial system was "sound, but vulnerabilities remain." Housing is still in the spotlight, and the report's highlight was the news recent mortgage borrowing has been at higher debt-to-income and loan-to-value ratios (LVR). The RBNZ is in 'wait-and-see' mode given recent changes to government policy and LVR restrictions, but of the possible new tools, the bank favours debt serviceability restrictions. Our outlook sees the housing market cooling over the rest of the year, which may limit the need for more action. You can read our full write-up [here](#).

NZ labour market data were stronger-than-expected across the board in Q1. Employment growth was ahead of expectations (+0.5% qoq vs ASB: 0.0%) and the unemployment rate fell by more than anticipated (4.7% vs ASB: 4.8%), and wage growth was also firm (+0.4% qoq vs ASB: +0.5%). It's a good news story, but we caution the NZ unemployment is still above its pre-pandemic levels and there remains some slack in the labour market. **Despite the market moves in the aftermath of the print, we see minimal implications for our OCR view.** We'd note the uptick in wage pressures was merely in line with the RBNZ's forecasts, and we still have the latter half of 2022 as our pick for any shift towards tightening. You can read our full write-up [here](#).

Overnight, investor moods lifted off the [back](#) of strong earnings data from some market behemoths and a couple of strong data prints. Services PMI data in particular were very strong, coming in well ahead of expectations (64.7 vs mkt: 63.1) and at the second-largest pace of growth on record. Much anticipated ADP employment data fell a bit short of lofty expectations (742k vs mkt: 850k) but was still well up on March's result. The one exception was the ISM services index, which showed service activity slowing a shade. Adding to the mix were better than expected earnings results for General Motors and Lyft.

The upshot saw broad gains for equities, with share markets starting to edge back towards record highs after their wobble yesterday. As at the time of writing, the Dow was up 0.28% and the S&P 500 was up 0.15%. The laggard was the Nasdaq (down 0.48%), where anxieties about frothy tech valuations have held back the index. **Some gains have since unwound following the news the US will waive vaccine intellectual property protections.**

US Treasury yields have fallen overnight as Fed officials have sought to play down inflation fears. In comments, Chicago Fed President Charles Evans said the risk of inflation running out of control was 'remote.' His comments were echoed by a bunch of other Fed officials with Boston's Eric Rosengren and Cleveland's Lorette Messer also speaking. Fed Kremlinologists reckon the latter two are some of more hawkish Fed presidents, so its notable they are all singing from the same song sheet.

FX comment: NZD was comfortably the strongest performer in the G10 overnight, as befits the more bullish risk tone and the strong labour market data. NZD was up between 0.5% and 2.5% on its peers, with the exception of the similarly pro-cyclical AUD, where gains were a bit more modest. As at the time of writing, NZD/USD was just shy of 0.721 while the NZD/AUD was just shy of 0.931.

Day ahead: Two domestic releases are out today – March building consents and the provisional ANZBO, but they will be quiet affairs compared with yesterday's excitement. The other local news to watch out for is around Fonterra's pending capital restructure announcement, though the move is unlikely to have any implications for our dairy sector forecasts. Overnight, there are a few bits and pieces of data out (ECB bulletin, Eurozone retail sales, US initial jobless claims), but the real marquee event will be BoE's latest policy announcement. Expect no changes in any policy levers but watch the Bank's comments for hints of a shift in a slightly more hawkish direction. **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7209	0.9%	NZD/SEK	6.120	1.0%	NZX WMP	4240.0	0.2%	Dow	34243	0.3%
NZD/AUD	0.9311	0.5%	NZD/DKK	4.466	1.0%	Gold \$/o	1785.7	0.4%	S&P 500	4169	0.1%
NZD/EUR	0.6006	1.0%	NZD/THB	22.4	0.7%	WTI Oil \$/b	65.6	-0.1%	NASDAQ	13596	-0.3%
NZD/JPY	78.73	0.7%	AUD/USD	0.7744	0.5%	Money Market (%)			FTSE	7039	1.7%
NZD/GBP	0.5184	0.7%	EUR/USD	1.200	-0.1%	90 Day BB	0.36	0.01	CAC-40	6339	1.4%
NZD/CAD	0.8851	0.6%	USD/JPY	109.2	-0.1%	OCR	0.25	0.00	DAX	15171	2.1%
NZD/CHF	0.6584	0.8%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28418	-0.5%
NZD/HKD	5.602	0.9%	NZ	1.73	0.05	1yr	0.37	0.01	Nikkei	28813	-0.8%
NZD/SGD	0.9630	0.8%	US	1.58	-0.01	2yr	0.50	0.03	ASX200	7096	0.4%
NZD/CNH	4.677	1.0%	Aust	1.75	-0.02	5yr	1.15	0.06	NZX50	12848	-0.5%

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