

## Stimulus chat music to markets' ears

**It's been another fairly quiet night in financial markets, continuing the theme of the week.** There was further gentle progress in recent trends for lower bond yields, higher equities, and a weaker USD.

**Stock markets globally have continued to probe new highs**, emboldened by vaccine progress and the likelihood that fiscal and monetary pump-priming will continue for a while yet (see para below). The US S&P500 and European Euro Stoxx 50 indices both claimed fresh record highs following overnight gains of around 0.5%. Tech stocks outperformed.

Soothing words from policy makers about ongoing stimulus have been a key underpinning of the strength in market sentiment. Hot on the heels of yesterday's dovish FOMC minutes, Fed chair Powell was at it again overnight at an IMF event. He said while consumer spending is likely to surge as the US economy reopens, the uptick in inflation will likely prove temporary. St Louis Fed President Bullard said "we have to get the pandemic behind us first" before thinking about monetary policy changes and Treasury Secretary Yellen was also on the wires again beating the drum about fiscal stimulus: "I urge all major economies...to provide a significant amount of new fiscal support..."

**The read-through for markets is that lofty global growth forecasts for 2021 and 2022 (of 5.6% and 4.1%, according to Bloomberg consensus) are looking more assured**, and the Fed will be slow to whip away the punchbowl, a constructive backdrop for share-markets. Unexpectedly high US jobless claims figures (744k vs. 680k expected) were ignored.

Closer to home, yesterday's small dip in ANZ's headline business confidence measure (to -8.4 from -4.1 in March) wasn't all that surprising. It was more notable that the parts of the survey that provide decent leads for economic activity – own activity expectations, employment & investment intentions – all held up admirably. As Jane notes in our [write-up](#), employment intentions are now at the highest level since 2017. This supports our view of firm labour market conditions over 2021 bringing about an acceleration in wage inflation. Indeed, the stand-out theme of the survey remains raging cost pressures, and the attendant risks of a spike in inflation and associated hit to firms' profitability. It's a difficult, but hopefully temporary, mix of conditions for the economy. The RBNZ will thus keep a watching brief only.

**Local recap:** Local wholesale interest rate markets continue to drift. As the dust has settled on the Government's measures to combat housing speculation, swap yields have settled 10bps (2-year) to 30bps (10-year) below their recent highs. There hasn't actually been a lot of change in terms of OCR expectations – rightly in our view. OIS market pricing implies a better-than-even chance of a RBNZ rate rise by the middle of 2022. Next week's RBNZ meeting stands out as the next test of the market's mettle, albeit the long-end of the NZ curve (5-10 years) will continue to dance to the beat of offshore drivers.

**FX comment:** More choppy trading inside familiar ranges. The NZD/USD again bounced off 0.7010 support to around 0.7050, with the weaker USD doing most of the heavy lifting. Our view is that fundamentals remain highly supportive of the NZD and we expect the recovery to continue. In contrast, GBP remains heavy seemingly thanks to blood-clot fears related to the AstraZeneca shot. However, the economic picture is recovering rapidly in the UK meaning GBP underperformance is overdone in the view of our CBA colleagues.

**Day ahead:** A quiet day to end a quiet week is in prospect. There's a smattering of second-tier Chinese data out this afternoon and the RBA Financial Stability Report will be released at 1:30pm. RBNZ Chief Economist Ha is due to speak to a Citi macro forum at 9:30am, but we doubt there will be anything new & exciting for markets given the proximity to next week's RBNZ policy announcement. Ha will speak to a set of [slides](#) summarising the previous MPS.

**Author:** [mike.jones@asb.co.nz](mailto:mike.jones@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7053	0.6%	NZD/SEK	6.0190	-0.4%	CRB Index	187.369	0.6%	Dow	33504	0.2%
NZD/AUD	0.9216	0.1%	NZD/NOK	5.9671	0.4%	NZX WMP	4040	0.2%	S&P 500	4095	0.4%
NZD/EUR	0.5920	NA	NZD/THB	22.16	0.7%	Gold \$/o	1756.04	1.1%	NASDAQ	13829	1.0%
NZD/JPY	77.09	NA	AUD/USD	0.7653	0.6%	WTI Oil \$/b	59.6	-0.3%	FTSE	6942	0.8%
NZD/GBP	0.5137	NA	EUR/USD	1.1915	0.4%	<b>NZD Swap Rates (%)</b>			DAX	15203	0.2%
NZD/CAD	0.8862	NA	USD/JPY	109.30	-0.5%	OCR	0.25	0.00	CAC-40	6166	0.6%
NZD/CHF	0.6519	9.5%	<b>10 Yr Bond Yields (%)</b>			3mth	0.33	-0.01	H.Seng	29008	1.2%
NZD/HKD	5.4846	0.5%	NZ	1.74	-0.01	1yr	0.35	-0.01	Nikkei	29709	-0.1%
NZD/SGD	0.9455	0.6%	US	1.62	-0.05	2yr	0.44	-0.01	ASX200	6999	1.0%
NZD/DKK	4.4027	0.3%	Aust	1.75	-0.01	5yr	1.05	-0.01	NZX50	12633	1.2%

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



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ASB Economics  
ASB North Wharf, 12 Jellicoe Street, Auckland

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