Daily Alert
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ASB

Clearing the final hurdle

Yesterday, the US stimulus package cleared its final political hurdle, passing the House of Representatives by a 220-211 margin. President Biden is expected to sign the legislation in a matter of hours. The USD $1.9 trillion package provides for $1,400 in direct payments for most Americans, expands health insurance subsidies and extends supplementary unemployment. While a lot of ink has been spilled about the measures over the past few months, it's worth pausing for reflection on the size of the package – the $1.9 trillion price tag is more than double the circa $800 billion spent in the aftermath of the GFC, and that's on top of the $2 trillion and $900 billion packages passed during 2020. All-up, the American economy is set to have received an unprecedented level of stimulus over the course of just over a year.

Turning to the world of monetary policy, overnight the ECB committed to ramp up its bond purchases in a bid to cap rising yields. "Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council expects purchases... …over the next quarter to be conducted at a significantly higher pace than during the first months of this year" the bank said. The bank left policy rates unchanged, as was widely expected. In comments after the meeting, ECB President Christine Lagarde acknowledged the risks to the outlook had become more balanced over recent weeks, but pressed Eurozone governments to speed up their fiscal response, and suggested the bank expects any pickup in headline inflation this year to be temporary, fading out by early 2022.

The modest US CPI reading earlier in the week and the central bank comments appeared to pause the reflation trade overnight. European bond yields were lower across the board in the aftermath of Lagarde's comments. In the US, Treasury yields were little changed, with the 10-year Treasury yield stabilising around the 1.523% mark.

Equities moved up overnight, with some indices hitting record highs. The stabilisation in yields and imminent stimulus package appeared to support sentiment. The Dow lifted 0.89%, the S&P 500 was up 1.40% and the Nasdaq had risen 2.59%. Tech shares rallied, recovering their losses from earlier in the week. The mood was further boosted by the week's jobless claims reading in the US, where both initial claims (actual: 712k vs mkt: 772k) and continuing claims (actual: 4,144k vs mkt: 4,200k) were lower than expectations. Sharemarkets were similarly higher throughout Europe.

It was a good night for commodity markets too. Brent Crude edged back towards USD$66 a barrel, and there were broad gains for both metals and agricultural commodities.

Yesterday's REINZ data provided yet more evidence of mammoth domestic house price inflation. The nationwide house price index posted a whopping 21.5% yoy gain (+3.6% mom), with sales/listings ratios continuing to point to an ultra-tight housing market. Also of note: January's weakness in house price sales proved to be temporary, with nationwide sales up 12% mom. From here we expect the pace of price gains to slow a little, but the market remains tight and we foresee house price inflation to hold at a double-digit pace over the rest of the year. You can read our full run-down here. **Elsewhere, NZ food price data were a shade weaker than expected (-0.9% mom, +1.2% yoy), whilst dwelling rents firmed (+0.3% mom, +2.6% yoy).** We expect rising housing costs to be a significant driver behind firming NZ inflation over 2021.

FX Update: The more bullish shift in risk sentiment overnight saw the safe-haven USD and JPY underperform. Amid the broad lift in commodity prices, commodity currencies advanced the most, with the AUD and CAD outperforming. The NZD was mixed against its peers, edging down to around 0.9280 against the AUD, and edging up around 0.7220 against the USD.

Day ahead: The only domestic release of note is the February BusinessNZ PMI data. No major data are out across the Tasman. Overnight, the latest Michigan Uni Sentiment Survey is out in the US, whilst the January industrial production data are released in Europe and the UK. **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7215	0.3%	NZD/SEK	6.100	0.0%	NZX WMP	4200.0	-0.9%	Dow	32592	0.9%
NZD/AUD	0.9273	-0.3%	NZD/DKK	4.478	-0.2%	Gold $/o	1723.8	-0.2%	S&P 500	3954	1.4%
NZD/EUR	0.6021	-0.2%	NZD/THB	22.1	0.6%	WTI Oil $/b	65.8	2.2%	NASDAQ	13409	2.6%
NZD/JPY	78.27	-0.2%	AUD/USD	0.7781	0.5%	**Money Market (%)**			FTSE	6737	0.2%
NZD/GBP	0.5164	0.0%	EUR/USD	1.198	0.5%	90 Day BB	0.32	0.00	CAC-40	6034	0.7%
NZD/CAD	0.9056	0.3%	USD/JPY	108.5	0.1%	OCR	0.25	0.00	DAX	14569	0.2%
NZD/CHF	0.6668	-0.4%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	29386	1.7%
NZD/HKD	5.599	-0.6%	NZ	1.72	-0.09	1yr	0.35	-0.01	Nikkei	29212	0.6%
NZD/SGD	0.9672	0.1%	US	1.52	0.01	2yr	0.53	0.00	ASX200	6714	0.0%
NZD/CNH	4.678	-0.2%	Aust	1.66	-0.06	5yr	1.18	-0.01	NZX50	12272	0.2%

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

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