

At the inflection point with focus on the data

In a US media interview in the weekend, Fed Chair Powell noted the US economy was at an “inflection point” and poised for stronger growth and hiring due to rising vaccinations (183m doses in the US and 777m worldwide according to Bloomberg figures) and powerful policy support. Indeed, US and European stock markets extended their gains on Friday, ending a strong week for global equities, with indices hovering around record highs. According to Bloomberg reports, investors have piled more funds into equities in recent weeks. The focus for markets will be on whether forthcoming activity and employment data do confirm brighter signs.

Powell played down inflation risks, but markets still look to be wary. US Treasury yields edged up at the end of last week (10Y 1.66%) on much stronger than expected US producer prices (headline 4.2% yoy, core 3.1% yoy) Chinese producer prices jumped 4.4% in the March year, the highest since 2018. The focus will also be whether debt markets can absorb rising government debt without a jump in yields. European yields firmed, with Italian 10-year government bond yields touching their highest levels since early March after Bloomberg reported that Mario Draghi’s government was preparing to boost public borrowing. There are government debt auctions this week in the US, UK, Germany, Italy, Australian and NZ.

There were other issues to concern markets. New COVID-19 cases in India reportedly hit a record 145k on Saturday, with cases surging in mainland Europe. The vaccine rollout has been slow in many countries and Australian PM Morrison has abandoned the target to have all Australians vaccinated for COVID-19 by the end of this year. Chinese regulators have reportedly hit Alibaba with an 18.23bn yuan fine (USD2.8bn) in its anti-monopoly investigation of the tech giant, saying it abused its market dominance.

Last Friday was a snooze-fest for local markets, with the NZD trading in tight ranges, modest falls for longer-term NZ swap yields and slightly larger falls for NZ bond yields. Australian swap yields firmed after the RBA Financial Stability Review said that the strong growth in Australian house prices in recent months is being “closely watched” by regulatory authorities. Going by the NZ experience, Australian policymakers may have their work cut out for them.

FX comment: Currencies have traded in tight ranges, with the NZD currently in the midst of its 0.7010 to 0.7060 USD range, with the kiwi at around 0.923 AUD. Our view is that fundamentals remain highly supportive of the NZD. GBP has staged a mild rally, but a period of volatility is possible ahead of Scottish Parliamentary elections in early May.

Day ahead: Quiet. Nothing scheduled for today locally, with the possibility REINZ releases its March housing data. We do not expect the Government’s recently announced changes to slow housing investor demand to materially dent the strength in the housing market just yet. A tepid 1.3% lift in February Eurozone retail sales is expected after the 5.9% January fall. A large US March fiscal deficit will likely be revealed early tomorrow morning.

Week ahead Australasia: NZ retail card spending for March is expected to post another sizeable decline (ASB: -1.5% mom) and highlight the potential for recession in NZ. At Wednesday’s Monetary Policy Review (see our preview [here](#)), the RBNZ is expected to maintain policy settings and reiterate there was no hurry to unwind current monetary stimulus. March labour market data for Australia (Thursday) are expected to show continued strengthening in employment (CBA: +45k, mkt: 35k) and a lower unemployment rate (CBA: 5.6%, mkt: 5.7%). NAB’s March business survey for Australia is expected to deliver another strong print.

Week ahead elsewhere: Base effects and rising gasoline prices are expected to push US headline CPI inflation to 2.5% yoy (core 1.6% yoy), with US March retail sales and industrial production expected to rebound from February falls. There will be speeches by FOMC Chair Powell and other Fed members this week as well as the Fed Beige book. The ZEW survey and March CPI (mkt: 1.3% yoy) headline Eurozone and German data, with some ECB and BOE policymakers on the wires. Helped by favourable base effects, annual growth in Chinese GDP should be strong (CBA: +19.6, mkt: 18.2% yoy), with growth to ease over 2021. Annual March growth should also be high for Chinese retail sales (mkt: 28.5% yoy), Industrial production (18.5% yoy) and fixed asset investment (27% yoy). **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7038	-0.1%	NZD/SEK	6.014	0.1%	NZX WMP	4050.0	0.2%	Dow	33801	0.9%
NZD/AUD	0.9231	-0.1%	NZD/DKK	4.401	0.0%	Gold \$/o	1743.9	-0.7%	S&P 500	4129	0.8%
NZD/EUR	0.5917	0.0%	NZD/THB	22.1	0.8%	WTI Oil \$/b	59.3	-0.5%	NASDAQ	13900	0.5%
NZD/JPY	77.20	0.0%	AUD/USD	0.7623	0.0%	Money Market (%)			FTSE	6916	-0.4%
NZD/GBP	0.5130	-0.1%	EUR/USD	1.189	-0.1%	90 Day BB	0.32	-0.01	CAC-40	6169	0.1%
NZD/CAD	0.8811	-2.4%	USD/JPY	109.7	0.0%	OCR	0.25	0.00	DAX	15234	0.2%
NZD/CHF	0.6519	0.1%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28699	-1.1%
NZD/HKD	5.469	-3.0%	NZ	1.71	-0.04	1yr	0.34	0.00	Nikkei	29768	0.2%
NZD/SGD	0.9441	-0.1%	US	1.66	0.04	2yr	0.45	0.01	ASX200	6995	-0.1%
NZD/CNH	4.611	0.0%	Aust	1.77	0.02	5yr	1.05	0.00	NZX50	12574	-0.5%

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