

## Play it again John. US sharemarkets at record high.

**US sharemarkets rose on Friday** after investors regained some confidence in the global growth outlook. Bank of America (+3.3%), Goldman Sachs (+3.6%) and JPMorgan (+3.2%) led a bounce in financial shares ahead of June quarter earnings results which start this week. Shares of General Motors gained 4.8% after Wedbush Securities said the stock is a buy. Levi Strauss shares lifted 1.4% as it forecast a strong full-year profit. The Dow Jones index rose by 1.3%. The S&P 500 index gained 1.1% and the Nasdaq index rose 1.0%. All three indices closed at record highs. For the week, the Dow was up 0.2%, and the S&P 500 and Nasdaq each added 0.4%.

**European sharemarkets also lifted on Friday.** The pan-European STOXX 600 index closed up by 1.3% with shares of miners surging 4%. The German Dax index gained 1.7% and the UK FTSE index added 1.3%. Britain's economy, as measured by GDP, grew by 0.8% in May compared with April (survey: +1.5%).

**US Treasury yields climbed on Friday**, halting an eight-day price rally that was fuelled by worries about the US economic recovery. US 10-year yields advanced by 7 points to 1.3612%. Despite Friday's lift, 10-year yields retreated by 7 points over the week. The **NZ 10-year Government Bond yield** was down 2 basis points on Friday and 16 basis points for the week to 1.54%. The NZ 10-year yield is now around 40 basis points off the highs recorded back in March.

**The year's theme of underperformance continued for the NZ sharemarket**, which was down 0.5% on Friday. The Australian and Japanese sharemarket benchmarks were also down on Friday.

Last Friday China's central bank confirmed it will cut the reserve requirement ratio by 50bps for financial institutions from 15 July to support the economy. The implication is the deceleration in China credit growth may soon reverse which would ultimately bode well for commodities. Annual growth in China total social financing (a broad measure of credit) slowed in June to 10.95% (lowest since February 2020). In June, China's headline CPI inflation slowed more than expected to 1.1%p.a. (consensus: 1.2%), PPI inflation eased for the first time since September 2020 to 8.8%p.a. and core CPI inflation remains subdued under 1%p.a.

**FX Comment:** Major currencies were mostly firmer against the US dollar in European and US trade on Friday night. The NZD continues to trade around 0.7000 against the USD, and 0.9300 against the AUD. There are plenty of catalysts for volatility this week, with the RBNZ meeting on Wednesday the highlight.

**Day ahead:** Today we expect data to show a flat outturn for overall June card spending, after a strong few months. MBIE card spending for June was down about 1% on the previous month, weighed by a fall in overseas card spending as the trans-Tasman travel bubble was paused following COVID-19 outbreaks in Australia. US consumer inflation expectations data are due tonight.

**Week ahead local:** The RBNZ meeting on Wednesday is the local highlight. We expect the RBNZ to remain on hold but have brought forward our timing of the first lift in the OCR to [November 2021](#). The economy is in a much stronger position than the RBNZ anticipated not long ago, with Q1 GDP exceeding its forecasts in dramatic fashion. And inflation pressures are heating up at a much faster pace than the RBNZ previously forecast. The upshot is the Official Cash Rate is likely to head up far sooner than the August 2022 timing signalled in the RBNZ's May Monetary Policy Statement, when it released its first public OCR forecast since the pandemic began. The June food price and dwelling rental data outturns (Tuesday) are the last inputs into our Q2 CPI pick (Friday). A combination of rising costs, capacity frictions and reduced consumer resistance to having to pay higher prices is expected to contribute to a generalised strengthening in prices, with annual tradable and non-tradable inflation rates both nearing 3%. Solid quarterly positive contributions are expected to come from the housing, food prices and transport groups, but we will be also looking at the wider CPI basket for signs of uplift.

**Week ahead offshore:** US CPI data on Tuesday night is a highlight, and the Fed's Beige Book on Thursday will help set the tone for the next FOMC meeting at the end of the month. UK CPI data are due Wednesday. June employment data are due on Thursday in Australia. **Author:** [chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6996	-0.1%	NZD/SEK	5.998	0.0%	NZX WMP	3750.0	-0.4%	Dow	34870	1.3%
NZD/AUD	0.9350	0.1%	NZD/DKK	4.383	0.0%	Gold \$/o	1808.3	0.3%	S&P 500	4370	1.1%
NZD/EUR	0.5892	-0.1%	NZD/THB	22.8	-0.1%	WTI Oil \$/b	74.6	2.2%	NASDAQ	14702	1.0%
NZD/JPY	77.06	0.0%	AUD/USD	0.7482	-0.1%	<b>Money Market (%)</b>			FTSE	7122	1.3%
NZD/GBP	0.5038	0.0%	EUR/USD	1.188	0.0%	90 Day BB	0.34	-0.01	CAC-40	6529	2.1%
NZD/CAD	0.8717	0.0%	USD/JPY	110.2	0.0%	OCR	0.25	0.00	DAX	15688	1.7%
NZD/CHF	0.6401	0.1%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	27345	0.7%
NZD/HKD	5.438	0.0%	NZ	1.66	-0.02	1yr	0.58	0.00	Nikkei	27940	-0.6%
NZD/SGD	0.9453	-0.1%	US	1.36	0.07	2yr	0.86	-0.01	ASX200	7273	-0.9%
NZD/CNH	4.535	0.0%	Aust	1.37	0.04	5yr	1.34	0.02	NZX50	12690	-0.5%

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