

Markets lap up softer US inflation data

Market sentiment has been well supported overnight in classic risk-on fashion, as earmarked by trans-Atlantic gains for equity markets, rising commodity prices and a softer USD. There have been a few key supports in evidence: most obviously, the latest US inflation print has been fairly unexciting (+0.5% mom, 5.4% yoy in line with expectations), reducing the odds the Fed has to shut off the monetary taps earlier than it wants to.

Political developments have been pretty smooth too. Hot on the heels of the passage of a massive infrastructure package, the Senate has adopted a \$3.5 trillion budget that amongst other things, expands the tattered US social safety net and injects more cash into fighting climate change (note this time the bill has only one-party support). Markets haven't been too phased by the prospect of significant tax changes as part of that package, but this this could quickly change.

It's been a good night for equity markets, with most major indices making solid gains. Among the highlights, the Dow has hit a new record high after jumping 0.67% over the session thus far, with the S&P500 up a more modest 0.2%. With Tech shares underperforming, the Nasdaq has been the exception, sliding 0.2%. European equities have joined in on the party

We've had a few comments by Fed hawks floating the withdrawal of monetary support. Most notably, the Dallas Fed's Robert Kaplan said "what I don't want to do is keeping running at this speed for too long and then we're going to have to take more aggressive action down the road," backing an October taper in some of the most explicit comments about tightening the taps we've had from a Fed official lately. Kansas City's Esther George was a bit more cautious but leaning in a similar direction, suggesting 'the time has come' to dial back support. The Richmond Fed's Thomas Barkin said the US was 'closing in' on a taper, though he was less clear about supporting an October kick-off.

Despite those comments, Treasury yields have pared back overnight. The Fed officials speaking are generally regarded as hawks by Fed Kremlinologists (with Kaplan being perhaps the most hawkish governor of all), and only Barkin is a 2021 vote. Instead, markets seem focused on the modest inflation data, reckoning it will support the case by more dovish members (including Jerome Powell and NY's John Williams) to keep the taps on a bit longer. Treasury yields have eased across the curve, with little change in slope. As at the time of writing the 10-year yield sits around 1.33%.

A softer USD has been the order of the day overnight, easing against the rest of the G10 in keeping with the risk-on theme. Conversely, the big winner has been NOK, supported by gains for oil and other energy commodities overnight. NZD and AUD have been two of the other strong performers, taking similar support from commodity markets (with the NZD winning out of the two). As at the time of writing, NZD/USD sits around 0.704 and NZD/AUD around 0.955.

Local Recap: With no major economic data out, the yesterday's big headline being the release of the expert advisory group's recommendations to the government on the reopening of the NZ border. The group broadly endorsed the government's elimination strategy, made some suggestions about improving contact tracing and recommended the NZ border stay shut until the vaccine rollout is complete, with a staggered re-opening to follow. At a glance there are few implications to our forecast, but news supports our view the risks are tilted towards a more prolonged border closure. In other pandemic news, yesterday saw COVID Response Minister Chris Hipkins confirm we'll head swiftly up to a Level 4 lockdown in the event of a community delta outbreak.

Across the ditch, there's little positive news on the COVID front, with lockdowns extended in Melbourne and NSW recording its second highest daily case number. Despite those grim developments, the latest Aussie Westpac consumer confidence data wasn't as bad as feared, recording only a modest drop. We'd note that figure diverges quite markedly from what we've seen in other recent Aussie business and consumer surveys, so treat with caution.

Day ahead: Here in NZ, we'll get the last key piece of inflation data ahead of the RBNZ meeting next week at 3pm with the latest inflation expectations readings. Other local highlights include REINZ house sales, monthly food prices, the BusinessNZ PMI and net migration data. Aussie inflation expectations are also out this afternoon. Overnight, we've got yet more forward-looking inflation indicators with release of the US producer price index, which is expected to be mixed.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7044	0.5%	NZD/SEK	6.117	0.1%	NZX WMP	3530.0	-0.6%	Dow	35469	0.6%
NZD/AUD	0.9550	0.1%	NZD/DKK	4.462	0.3%	Gold \$/o	1752.1	1.3%	S&P 500	4446	0.2%
NZD/EUR	0.5999	0.3%	NZD/THB	23.3	-0.4%	WTI Oil \$/b	69.3	1.4%	NASDAQ	14766	-0.2%
NZD/JPY	77.78	0.3%	AUD/USD	0.7375	0.4%	Money Market (%)			FTSE	7220	0.8%
NZD/GBP	0.5079	0.3%	EUR/USD	1.174	0.2%	90 Day BB	0.69	0.02	CAC-40	6858	0.6%
NZD/CAD	0.8809	0.1%	USD/JPY	110.4	-0.1%	OCR	0.25	0.00	DAX	15826	0.4%
NZD/CHF	0.6493	0.4%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26660	0.2%
NZD/HKD	5.479	0.5%	NZ	1.83	0.02	1yr	1.09	0.00	Nikkei	28071	0.7%
NZD/SGD	0.9555	0.3%	US	1.33	-0.02	2yr	1.32	0.02	ASX200	7584	0.3%
NZD/CNH	4.561	0.3%	Aust	1.23	0.02	5yr	1.65	0.02	NZX50	12748	0.0%

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