

Status quo is king

Yesterday we got our last clue about the direction of inflation ahead of next week's MPS, with the RBNZ's Survey of Expectations. The headline was a sharp jump in shorter-term inflation expectations – well north of 2% and set to climb further – but with long-term expectations little changed and still trending to the 1-3% target. With house price expectations also continuing to lift, the news is supportive of our view the RBNZ is likely to want to get ahead of things by tightening OCR settings relatively swiftly. The reading aligned with other data out yesterday which showed NZ food prices lifting (+2.8% yoy) and house prices accelerating yet again (+2.3% mom).

Markets have generally traded in narrow ranges overnight. There have been few major headlines or shocking developments to roil things up, with the status quo the order of the day. There have been a couple of second-tier drips and drabs of data out – the US PPI rose more than anticipated (+1.0% vs a surveyed +0.6% mom) and jobless claims dropped for a third week. So throw them on the pile as more evidence the US labour market is heading back to capacity and inflationary pressures are set to persist, despite yesterday's CPI result.

Equities have been relatively little changed overnight, trading in their narrowest band since the pandemic began, per Bloomberg. Still, given their climbs over the course of this year, even modest gains were enough to tip some indices to new all-time highs. As of the time of writing, the S&P500 is up +0.26%, the Nasdaq up 0.34% and the Dow little changed - 0.2%. Gains have been larger in Europe while, by contrast, it was generally a softer session for Asian equities yesterday amid signals Beijing is weighing up a tighter regulatory climate in its next five-year plan.

Treasury yields advanced overnight, reversing yesterday's retreat. That's hardly surprising in light of the stronger PPI and jobless claims data. As at the time of writing, the 10-year yield is back up around 1.361%, with a bit of curve steepening in evidence.

Some of the night's larger moves have been in commodity markets. There's been a bit of a divergence between the 'hard' commodities (energy and metals) with the 'soft' commodities (agri products). The former have pared back their gains from earlier in the week, while the latter have enjoyed a good session. Brent crude sits around US\$71 a barrel – roughly in the middle of its lofty range over the past month.

On the currency front, a weaker NZD has been the order of the day overnight. As at the time of writing, NZD/USD is back below the 0.700 mark. It's hard to identify a catalyst for the move lower, particularly in light of the gains for agri commodities overnight. USD strength is one element, reversing some of yesterday's post CPI losses. The NZD/AUD is slightly lower at around 0.954.

Day ahead: It's back to another quiet day domestically after yesterday's inflation expectation data – the Business NZ PMI data is the highlight today at 10.30am. There's practically nothing whatsoever out across the Tasman. Overnight there's a glut of US economic data out, centred around Terms of Trade data and the Michigan Uni sentiment survey (which will include survey data on those all-important inflation expectations). **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7000	-0.6%	NZD/SEK	6.082	-0.6%	NZX WMP	3515.0	-0.4%	Dow	35500	0.0%
NZD/AUD	0.9541	-0.1%	NZD/DKK	4.436	-0.6%	Gold \$/o	1753.5	0.1%	S&P 500	4461	0.3%
NZD/EUR	0.5965	-0.6%	NZD/THB	23.2	-0.8%	WTI Oil \$/b	69.1	-0.2%	NASDAQ	14816	0.3%
NZD/JPY	77.30	-0.2%	AUD/USD	0.7337	-0.5%	Money Market (%)			FTSE	7193	-0.4%
NZD/GBP	0.5070	-0.2%	EUR/USD	1.173	0.0%	90 Day BB	0.68	-0.01	CAC-40	6882	0.4%
NZD/CAD	0.8762	-0.5%	USD/JPY	110.4	0.0%	OCR	0.25	0.00	DAX	15938	0.7%
NZD/CHF	0.6464	-0.4%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26518	-0.5%
NZD/HKD	5.447	-0.6%	NZ	1.81	-0.02	1yr	1.08	-0.01	Nikkei	28015	-0.2%
NZD/SGD	0.9506	-0.5%	US	1.36	0.03	2yr	1.32	0.00	ASX200	7588	0.1%
NZD/CNH	4.535	-0.6%	Aust	1.19	-0.04	5yr	1.63	-0.01	NZX50	12682	0.0%

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