

Markets look through higher US inflation readings

Overnight the focus for markets was US March inflation data, which did not disappoint with consumer prices jumping a stronger than expected 0.6% mom (2.6% yoy, mkt: 2.5% yoy). The jump from the 1.7% annual rate in February largely reflected base effects and surging gasoline prices, with core CPI inflation (0.3% mom and 1.6% yoy) still low. The stronger inflation readings were in synch with various US business surveys showing an acceleration in cost pressures. It's not just for the US as well, with our [analysis](#) earlier pointing to a pending firming in NZ inflation readings.

The issue for markets was whether there was anything in the data that would suggest that the trend in US inflation was set to move sharply higher (too early to tell) and that this would bother the Fed (unlikely, with Fed members Rosengren and Harker overnight still banging the drum for continued policy support). **Not yet was the verdict.** Treasury yields have eased since the US inflation data (10Y 1.63%), with the strong demand for a 30-year bond auction overnight indicating markets were non-plussed with inflation risks. UK yields were also lower. Australian yields firmed yesterday, supported by strong data (see below) and the expectation that the RBA may eventually back away from its 0.1% cash rate till 2024 pledge and yield curve control targets. There was a more modest lift for NZ yields.

Equity markets took the higher inflation print in their stride, with the S&P500 and Nasdaq touching record highs, likely boosted by the prospect of strong Q1 corporate earnings, with reports set to trickle in. Prices for Bitcoin hit a fresh record high ahead of the Coinbase launch. European equities edge higher after briefly declining after US officials had called for an immediate pause in using the single-dose Johnson & Johnson vaccine after a few patients (six) developed blood clots. Stocks were generally up in the Asian session. **The USD weakened after the inflation data, pushing USD-denominated commodity prices higher. Oil prices rose to their highest level in over a week** after OPEC raised its forecast of global oil demand. Gold prices also rose.

There were other themes floating around in markets. Rumours that US Treasury Secretary Yellen would not name China as a currency manipulator in her semi-annual foreign-exchange report helped to reduce simmering US-China tensions that were unlikely to have been helped by reports that the Biden administration were to send an unofficial delegation to Taiwan (likely as a show of support). COVID-19 continues to wreak havoc in emerging economies with the global death toll approaching 3 million. There are fears that the less-effective Chinese COVID -19 vaccines (efficacy rates ranging from just above 50% to 80%) will hamper vaccine rollouts and provide less immunity for users mostly in the developing world.

Courtesy of a jump in hospitality, durable, services and non-retail spending, NZ March card spending rose (retail +0.9% s.a., core +0.7% s.a., total +2% s.a.), with favourable base effects pushing up annual growth rates (retail 5.1% yoy, total 7.8% yoy). **Nevertheless, card spending values were generally down in Q1, with households no longer driving growth and signalling the NZ economy was potentially back in recession in late 2020/early 2021.** See our take [here](#).

The Q1 NZIER Quarterly Survey of Business Opinion (QSBO) signalled a low growth/higher inflation mix for the economy. Domestic trading activity was sub-par (past quarter 0 s.a, next quarter 8 s.a.), whereas employment intentions (past +8, next +18) and investment intentions firmed (+7 and +15, respectively). However, capacity metrics (capacity as a constraint +16), average costs (past +33, next +48), and average selling prices generally continued to ratchet up (past +8, next +28), with labour shortages becoming more acute (ease of finding labour: skilled -49, unskilled -27).

There was little market reaction after the NAB March survey for Australia showed a generalised strengthening in price and activity metrics, with business conditions hitting a record high +25, a close to 50-point turnaround since March 2020. Due to stronger than expected import demand (38% yoy, exports rose 30.6% yoy), the March Chinese trade surplus undershot expectations (USD13.8bn versus mkt: USD52bn).

FX comment: The USD weakened despite the stronger than expected US inflation print, with the greenback the weakest of the G10 currencies overnight and the NZD and AUD amongst the strongest performers. The NZD is current towards the top of its 0.70000 to 0.7060 USD range, with the NZD a shade lower at around 0.9230 AUD. Fundamentals remain in favour of a strong NZD.

Day ahead: REINZ housing market data should make an appearance in the next day or two and should be robust. NZ net immigration and inbound tourism figures for February should be weak. At 2pm, we expect the RBNZ to hold policy settings (including the record-low 0.25% OCR) and deliver a dovish policy assessment. Consumer confidence data for Australian (prior 111.8) is out. Markets are centred around a 1.2% February dip for Eurozone industrial production. The Fed Beige Book and exports & import prices for the US are out, with a number of speeches/appearances by the Fed (including Powell and Williams), the ECB (Lagarde) and BOE (Haskel). **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7057	0.4%	NZD/SEK	6.006	-0.3%	NZX WMP	4125.0	1.4%	Dow	33688	-0.2%
NZD/AUD	0.9228	0.1%	NZD/DKK	4.392	0.1%	Gold \$/o	1744.7	0.7%	S&P 500	4143	0.5%
NZD/EUR	0.5905	0.1%	NZD/THB	22.2	1.1%	WTI Oil \$/b	60.2	0.8%	NASDAQ	13996	1.1%
NZD/JPY	76.95	0.1%	AUD/USD	0.7647	0.3%	Money Market (%)			FTSE	6890	0.0%
NZD/GBP	0.5130	0.3%	EUR/USD	1.195	0.3%	90 Day BB	0.32	0.00	CAC-40	6184	0.4%
NZD/CAD	0.8845	-2.0%	USD/JPY	109.1	-0.3%	OCR	0.25	0.00	DAX	15234	0.1%
NZD/CHF	0.6493	0.2%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28497	0.2%
NZD/HKD	5.485	-2.7%	NZ	1.74	0.01	1yr	0.35	0.00	Nikkei	29752	0.7%
NZD/SGD	0.9462	0.4%	US	1.62	-0.04	2yr	0.46	0.00	ASX200	6977	0.0%
NZD/CNH	4.617	0.1%	Aust	1.82	0.04	5yr	1.08	0.01	NZX50	12656	1.1%

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