

## Stocks bounce back after inflation wobbles

**Equities have regained some ground overnight after their inflation-induced wobbles of late.** Sharemarkets were higher across the board on Wall Street, and mostly positive in Europe. As at the time of writing, the Dow is up 1.54%, the S&P500 is up 1.47% and the Nasdaq is up 0.80%. **Similarly, US treasury yields unwound some of their earlier gains, with a flattening bias in the curve (10Y: 1.67%).** The move in markets comes despite a larger-than-expected lift in US producer prices overnight (+0.6 mom vs mkt: 0.3%) that followed yesterday's hot CPI reading. The other key data point overnight was the latest US weekly initial jobless claims data, which was a shade softer than expected (470k vs mkt: 493k) but not dramatically so.

**In comments overnight, Fed officials have continued to emphasise their dovish position in the aftermath of yesterday's CPI lift.** Fed Gov Christopher Waller was keen to note they would need "several more months of data" before considering a shift in policy settings. Waller re-voiced the view that the jump in consumer prices is likely to prove temporary, driven by temporary supply bottlenecks and pent-up demand from consumers flashing the cash after being stuck at home for months and months. The Richmond Fed's Thomas Barkin suggested spending has snapped forward faster than employment, and the labour market still faced 'frictional' challenges.

**Bitcoin's still down sharply at the time of writing, sitting below the USD\$50,000 mark and down about USD10,000 from where it began this week.** The fall has come amid comments by Tesla CEO Elon Musk yesterday that the car maker would stop accepting the crypto currency given the whopping amount of energy required to 'mine' it. It's all rather ironic given Bitcoin fans often advocate for the currency as a hedge against inflation and we've just had a very strong US CPI reading.

**There were a few bits and pieces of data on the domestic front yesterday, with April house price data from REINZ being the big highlight.** The REINZ data was closely anticipated as the first month of data post the LVR and tax policy changes. For now, there's little sign that the housing market is slowing, and annual house price inflation hitting a new cycle-high of 24%. Still, we expect it will take a few months of data before we get a good sense of the impact on investor behaviour and note that pre-existing approvals under the old LVR regime may have encouraged a bit of front loading. **All-up, we still expect the market to cool over the course of the year, but without a hard landing.** You can read our thoughts [here](#).

Food price data from Stats NZ was yesterday's other release. It's not usually a data point that generates an enormous amount of eyeballing by markets, but with inflation speculation building and markets eager to guess the timeframe for rate hikes, the release will have generated a bit more interest. **Food prices were up 1.1% mom (+0.7% sa), broadly in line with our expectations.** We expect further uptick over the coming months as the recent strength in commodity prices flows into the data. We retain our view that CPI inflation is likely to strengthen over the course 2021 and end the year close to 3%.

**Elsewhere in godzone, the Prime Minister gave a pre-Budget speech in the afternoon.** The PM was careful not to pre-empt any policy announcements, instead echoing comments from Grant Robertson earlier in the week. Most of the post-speech headlines revolved around the news PM Ardern will lead a trade delegation to Australia in July – her first international trip since the onset of the pandemic.

**FX update:** NZD was the strongest performer in the G10 overnight, making modest gains against all of its peers. As at the time of writing the NZD/USD was up around 0.719, and the NZD/AUD had lifted to around 0.930. The USD unwound some of yesterday's gains, whilst the CAD underperformed after oil prices tumbled.

**Day ahead:** Here in NZ, we'll get the latest manufacturing PMI data from BusinessNZ at 10.30. It's quiet for the rest of the daylight hours, but then its "data dump Friday" in the US, with retail sales (mkt: +1.0% mom, CBA: +1.0%), industrial production (mkt: +1.0% mom, CBA: +1.2%), terms of trade (mkt: import prices +0.6% mom, export prices +0.8% mom) and the University of Michigan sentiment survey (mkt: 90.2). Cumulatively, we expect the data to confirm the US recovery is well underway, with key retail activity and industrial production readings remaining strong. Watch out for signs capacity constraints are starting to impinge on the latter though. **Author:** [nathaniel.keall@asb.co.nz](mailto:nathaniel.keall@asb.co.nz)

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