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Markets move along after Trump impeached again

US President Trump added another milestone to his resume being the only US President in history to be impeached twice, with a single article for "incitement of insurrection" passing the US Lower House by 232 votes to 197. The US Senate vote is unlikely to occur ahead of President Elect Biden's inauguration on January 20, and two thirds of votes would still be needed to impeach Trump. If the Senate convicted Trump for the first time, he could be barred from holding the presidency again.

Markets have taken the saga of the Trump impeachment in their stride. The focus will be on getting through the Northern Hemisphere winter, with sentiment buoyed on reports President Elect Biden will introduce a circa USD2 trillion COVID-19 relief package. The package will include sizable direct payments to American families and significant state and local funding, including for coronavirus vaccine distribution and other emergency spending measures. However, COVID-19 continues to cast a shadow. Media reports suggest that more than 32.4m vaccines have been given worldwide. However, confirmed global cases of COVID-19 are approaching 93m with the death toll nearing 2m.

Global equity markets were supported by the prospect of more policy stimulus. The major US stock indices traded near record highs overnight, with energy, industrial and financials pushing the S&P500 modestly higher, with small gains for the Dow and Nasdaq. European stocks also edged higher, with widespread gains in the major Asian indices. Oil and commodity prices in general were firmer.

US Treasury yields firmed to 10-month highs (10Y 1.11%) with the curve continuing to steepen and pointing to increasing optimism. Core European bond yields were a shade lower as political unrest in Italy has shaken confidence, with Italian PM Conte still trying to keep the coalition government together. This, and the proposed €30bn of additional fiscal stimulus in Italy, pushed Italian 10-year yields higher (+0.64%). Closer to home, the first NZ DMO tender of 2021 went smoothly, with strong demand for the $450m of the 2024, 2027 and 2041 bonds. Total bids exceeded $2bn, with yields (2024 0.31%, 2027 0.57%, 2041 1.85%) 3-4bps below mid-market levels. NZ swap yields ended yesterday a fraction higher.

Central bank policymaker reiterated the importance of proving continued policy support. FOMC Chair Powell noted that the Fed will not raise rates until it sees troubling signs of inflation, and that the time to raise rates "is no time soon". According to Powell, it would be appropriate to keep rates near zero until inflation has risen to its 2% target and was on track to moderately exceed that level. The ECB Minutes did not give much away but linked the rate of bond purchases to market conditions and whether this would keep financial conditions favourable.

Data wrap: US initial jobless claims were considerably weaker than expected, rising to 965k, a 2-month high (mkt: 789k, prior 787k), with continuing claims rising to 5,271k (mkt: 5,000k, prior 5,072k). Boosted by strong exports, the Chinese December trade surplus was a larger than expected $78.2bn in December, with the 2020 surplus (USD535bn) the highest since 2015 ,and with the annual surplus with the US widening to USD317bn, the highest since September 2019. Preliminary estimates showed the German economy contracting by 5% over 2020, the largest fall since 2009.

NZ residential consent issuance for the November 2020 year rose to 38,604 consents, the highest annual total since 1974. Auckland issuance (16,293) was the highest on record. Strong construction activity and slowing population due to the border restrictions should act to bring the housing market more into balance and help cool house prices. NZ total paid jobs climbed 65k in the 4 weeks to December 6, hitting a record 2.3 million and illustrating the resilience of the NZ economy.

FX: The USD index initially firmed on hopes of larger US fiscal stimulus, but has eased over the last few hours with the USD one of the weaker performers on the G10 currencies overnight, whilst the AUD and NZD were amongst the strongest . The NZD has made gains over the last few hours and is currently towards the top of its 0.7175 to 0.7240 USD range overnight, but is becalmed at around 0.928 AUD. We remain constructive on the NZD, which should remain well supported given NZ's success in containing COVID-19, a positive outlook for export commodities and improving risk appetite.

Looking ahead: REINZ December housing market data (9am) are expected to show continued buoyancy, and ASB expects a circa 15% climb in house prices over 2020 and a further 10% increase or so over 2021. This will be followed by NZ food price and rental data for December, with the Q4 CPI to be released on January 21. Australian home lending data for January are expected to be robust (mkt+1.2% mom). UK November industrial production (mkt: +0.5% mom), services activity (mkt: -5.7% mom) and monthly GDP (-4.6% mom) are expected to show a COVID-19 hit. US retail sales (mkt: 0.0%), industrial production (mkt: +0.5% mom) for December, and January consumer sentiment data are out tonight.

Author: mark.smith4@asb.co.nz

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7223	0.4%	NZD/SEK	6.003	0.0%	NZX WMP	3400.0	1.2%	Dow	31170	0.4%
NZD/AUD	0.9278	0.0%	NZD/DKK	4.420	0.4%	Gold $/o	1852.6	0.4%	S&P 500	3815	0.1%
NZD/EUR	0.5941	0.5%	NZD/THB	21.6	0.3%	WTI Oil $/b	52.9	0.0%	NASDAQ	13168	0.3%
NZD/JPY	74.94	0.5%	AUD/USD	0.7785	0.5%	**Money Market (%)**			FTSE	6802	0.8%
NZD/GBP	0.5282	0.2%	EUR/USD	1.216	0.0%	90 Day BB	0.28	0.00	CAC-40	5681	0.3%
NZD/CAD	0.9129	0.2%	USD/JPY	103.8	-0.1%	OCR	0.25	0.00	DAX	13989	0.4%
NZD/CHF	0.6408	7.6%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	28497	0.9%
NZD/HKD	5.600	0.5%	NZ	1.06	-0.01	1yr	0.26	0.00	Nikkei	28698	0.8%
NZD/SGD	0.9566	0.3%	US	1.11	0.03	2yr	0.28	0.01	ASX200	6715	0.4%
NZD/CNH	4.672	0.4%	Aust	1.10	-0.01	5yr	0.58	0.01	NZX50	13116	0.0%

ASB Economics & Research			**Phone**	**Fax**
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657	
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661	
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915	
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5720	
Publication and Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660	

https://reports.asb.co.nz/index.html
@ASBMarkets

ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland

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