

Hawk in the Kremlin, Hawk at the Fed

Risk sentiment has swung around a bit overnight as overseas markets emerge bleary-eyed from the weekend. On the one hand, there have been hints of a de-escalation in the Ukraine crisis as Russian President Vladimir Putin consented to continued talks between Foreign Minister Sergei Lavrov and the West. On the other hand, there's a decent chance Putin is just playing to the domestic crowd given Russia has continued to mass its troops and expand its combat options on the Ukrainian border. Across the Atlantic, one particular Fed official continues to publicly push quite aggressively for a faster pace of rate hike. The upshot has seen a mixed run for equities and most European bonds, but continued upward pressure on Treasury yields.

Global sharemarkets have had a mixed run overnight. On Wall Street, the Dow is down 0.54%, the S&P500 is little changed, and the Nasdaq has lifted 0.19% as of the time of writing. Virtually all major European indices are down 1-2½%.

Treasury yields have opened the week considerably higher. Yields are up 6-9bps across the curve, with gains strongest in the front end of the curve. That reflects increasing market expectations the Fed will need to hike quite quickly in the near term in order to get back in front of hot inflationary pressures. The St Louis Fed's James Bullard has continued pushing that message (following on from similar comments last week), saying the Fed's "credibility is on the line" and "I do think we need to front-load more of our planned removal of accommodation than we would have previously" for those in the cheap seats. The shift in Treasuries contrasts with moves in European bonds, which have mostly eased in the near term overnight.

On the currency front, the traditional safe havens have been mixed despite the ongoing geopolitical tensions. USD and JPY are both relatively little changed, while the Swiss Franc has enjoyed gains. NZD/USD is a shade below where it was when the local market closed yesterday, trading near 0.662. NZD/AUD has shed a fraction of a cent to trade around 0.928.

Data Recap: NZ Performance of Services Index dipped ever so slightly in Jan, down to 45.0 from 49.7. NZ food prices lifted 2.7% mom over January – stronger than expected and supporting our view CPI inflation is likely to move above an annual 6.5% in the near term. Dwelling rents lifted 0.7% mom and capping a volatile run, though the risk is they start to accelerate further given many are indexed to headline inflation levels.

Local Recap: A typically quiet start to the week locally, with a 1.84% dip in the NZX50 being the biggest market move. RBNZ market pricing was little changed, paring back just over a basis point for 2022, despite that strong NZ food price and rent data.

Yesterday, the government also announced NZ will move to 'phase two' of its Omicron strategy at 11.59pm tonight, as had been well signalled. The shift means the self-isolation period for positive COVID cases reduces from 14 days to 10, while the period for close contacts falls from 10 days to seven. Rapid antigen testing is also set to become more commonplace.

Day Ahead: REINZ house sales data for January are out at 9am, which should give us more information on how much momentum the housing market has lost. NZ migration data for December are also out locally. In line with the typically thin post-COVID headline figures it will be a snoozer. Expect upcoming releases to be watched a bit more closely as the NZ border commences its staggered reopening.

In Aussie, the minutes for the last RBA meeting are released at 1:30pm but they ought to be pretty anticlimactic given Governor Lowe has already said plenty since the meeting (including his testimony to Parliament late last week). Overnight, the only release of any note is the UK labour market report for December – CBA expects a 4.1% unemployment rate. **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6613	-0.6%	NZD/SEK	6.212	0.0%	NZX WMP	4400.0	0.0%	Dow	34391	-1.0%
NZD/AUD	0.9286	-0.4%	NZD/DKK	4.355	-0.2%	Gold \$/o	1872.1	0.7%	S&P 500	4406	-0.2%
NZD/EUR	0.5852	-0.1%	NZD/THB	21.4	-1.4%	WTI Oil \$/b	94.0	1.0%	NASDAQ	13721	-0.4%
NZD/JPY	76.34	-0.4%	AUD/USD	0.7121	-0.2%	Money Market (%)			FTSE	7532	-1.7%
NZD/GBP	0.4888	-0.4%	EUR/USD	1.130	-0.3%	90 Day BB	1.21	0.00	CAC-40	6852	-2.3%
NZD/CAD	0.8426	-0.4%	USD/JPY	115.5	0.2%	OCR	0.75	0.00	DAX	15114	-2.0%
NZD/CHF	0.6118	-0.6%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	24557	-1.4%
NZD/HKD	5.159	-0.2%	NZ	2.78	-0.04	1yr	2.09	0.01	Nikkei	27080	-2.2%
NZD/SGD	0.8911	-0.5%	US	1.97	0.03	2yr	2.57	0.02	ASX200	7244	0.4%
NZD/CNH	4.202	-0.2%	Aust	2.14	-0.07	5yr	2.92	0.01	NZX50	11950	0.0%

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