Daily Alert
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ASB

OK boomer

Markets are riding high on growing evidence the US economy is booming. US retail sales figures released overnight surged 9.8% mom in March – the biggest increase in 10 months and miles ahead of the +5.8% analysts expected. In a sure sign confidence has returned, car sales led the gains (+15.1%). The recent US$1400 cheque drop as part of Biden's stimulus programme has been a key driver of the strength but a gradual re-opening of the US economy is also a major contributor.

Both the NY and Philly Fed manufacturing surveys also beat expectations as the US manufacturing sector enjoys a cracking run. Indeed, the Philly survey hit the highest level since 1973. At the same time, US jobless claims unexpectedly dropped to the lowest level since March 2020 (576k vs. 700k expected), suggesting strength in the economy is feeding through to improved labour market conditions.

Curiously, and despite this booming set of economic data, bond yields have notched up sizeable falls. US 10-year Treasury yields are off 10bps for the night at 1.55%, the lowest in a bit over a month. This is likely to feed through to lower NZ swap yields on the open this morning. San Francisco Fed President Daly did again roll out the Fed's "be patient" mantra, but this now well understood and shouldn't have been market moving.

Still, booming data, lower bond yields, and more strong earnings reports from US financials (this time Citi and Bank of America) proved to be a heady combination for equity markets. Most indices hit new highs overnight with gains of around 1% common across US indices and with European bourses up by slightly less. Volatility continues to slink lower as market sentiment improves, with the VIX index making another post-COVID low overnight around 16.5%.

Closer to home, NZ March housing figures were never going to be particularly impacted by the recent government announcements given they were made on the 23rd of last month. But we were still surprised by the sheer strength in the numbers yesterday. House sales hit the highest for a March month in 14 years, properties sold at a rapid clip (median days to sell of 31 days), and annual house price inflation rose to a fresh cycle-high of 24% courtesy of a very strong 2.7% (s.a.) lift over March. We expect the market to cool from here, with a slowing in activity (sales) the first marker to watch that would confirm this is happening. We have adjusted our house price forecasts to take into account the recent tax changes, but not aggressively so. Our best guess is that the additional house price gains we had forecast for the next 6 months will no longer occur. This lowers our annual house price inflation forecast for calendar 2021 to 10% (from 15%).

A barnstorming set of Aussie jobs figures provided another boost to the AUD and NZD yesterday, as the antipodeans continued to recover some of the ground lost in March. The unemployment rate moved down to 5.6% (lowest since March 2020) and the underemployment rate dropped to 7.9% (lowest level since June 2014). Our friends at CBA expect the unemployment rate to keep tracking lower, to 5% by the end of the year (c.f. RBA forecast of 6%). This helps underpin their view that the RBA will eventually have to back away from its on-hold-until-2024 cash rate guidance.

FX comment: The NZD/USD is top of the overnight FX performance leader board (+0.5% at 0.7170). Gains in risk appetite have had the expected impact on currency markets with the 'safe-haven' USD under mild downward pressure and the 'growth-sensitive' AUD and NZD outperforming. We've been looking for the NZD to recover given its strong medium-term fundamentals and thus think the recent rally can continue.

Day ahead: This morning's BNZ manufacturing PMI for March shouldn't ruffle too many feathers, and should remain comfortably above the 50.0 level indicating expansion in the sector (last: 53.4). This afternoon's string of Chinese activity data will all be flattered by base effects (very weak data prints this time last year) but solid growth momentum should shine through. GDP for Q1 is expected at 18.5% yoy (see what we mean by flattered) with annual retail sales growth expected at 28% yoy. A strong set of numbers would add to AUD and NZD upside momentum.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7177	0.5%	NZD/SEK	6.0596	0.2%	CRB Index	193.9	0.7%	Dow	34036	0.9%
NZD/AUD	0.9253	0.1%	NZD/NOK	6.0139	0.4%	NZX WMP	4165	1.2%	S&P 500	4169	1.1%
NZD/EUR	0.5995	NA	NZD/THB	22.32	0.0%	Gold $/o	1764	1.6%	NASDAQ	14039	1.3%
NZD/JPY	78.01	NA	AUD/USD	0.7756	0.4%	WTI Oil $/b	63.5	0.5%	FTSE	6984	0.6%
NZD/GBP	0.5206	NA	EUR/USD	1.1972	-0.1%	**NZD Swap Rates (%)**			DAX	15255	0.3%
NZD/CAD	0.8995	NA	USD/JPY	108.71	-0.2%	OCR	0.25	0.00	CAC-40	6234	0.4%
NZD/CHF	0.6614	11.0%	**10 Yr Bond Yields (%)**			3mth	0.34	0.02	H.Seng	28793	-0.4%
NZD/HKD	5.5746	0.5%	NZ	1.68	-0.02	1yr	0.36	0.01	Nikkei	29643	0.1%
NZD/SGD	0.9579	0.4%	US	1.56	-0.07	2yr	0.46	0.00	ASX200	7059	0.5%
NZD/DKK	4.4583	0.6%	Aust	1.78	0.02	5yr	1.08	0.00	NZX50	12637	-0.9%

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