

NZD/USD at key support, Fed meeting awaited

It's all a bit subdued in financial markets as market participants await tomorrow morning's Fed announcement (preview below). Global equity markets are mixed (European indices up, US down), and commodity prices are similar, albeit with good gains for oil prices (WTI crude +1.95%). There's been little change in bond markets while, in currencies, a stronger USD has knocked the NZD/USD down a little further. It trades around the lowest level since mid-April at 0.7120.

Last night's string of US economic data was, overall, a little softer than expectations. And this seems to have taken the edge of risk appetite (VIX index up from 16.3 to 17.2). Most notably, 'core' US retail sales fell 0.7% mom in May (+0.4% expected) as the impact of fiscal stimulus starts to fade. The NY Empire manufacturing survey (17.4 vs. 22.7 expected) and the home-builder confidence (81 vs. 83 expected) also disappointed.

Last night's GDT dairy auction saw the headline price index fall a modest 1.3%, with wholemilk powder prices down 1.8% and fat prices faring a little better. This is well within our and the market's expectations and hence there are no implications for our Fonterra Milk Price forecast (\$8.20 kg/ms for 2021/22 season).

Yesterday's RBA Board minutes saw the RBA play a straight bat, disappointing those looking for hints about what could be announced at the highly anticipated July meeting. At this meeting the bank will make a call on the future of QE and yield curve control. Our friends at CBA expect a tapering of asset purchases from A\$100b to \$50b to be announced given the stronger run of Aussie labour market and inflation data. They also expect cash rate guidance to ultimately be wound in a little. But, for now, the RBA is maintaining its guidance that a cash rate rise is unlikely before "2024 at the earliest".

The NZ housing market ship is turning, but it's turning slowly. That was the main message from the May set of REINZ housing data out yesterday (full write-up [here](#)). The upshot is that we've re-jigged our forecasts to allow for a more gradual easing in house price inflation this year. We now see annual house price inflation slowing to 15% by year end, from 10% previously. In sharp contrast, our forecast for calendar 2022 has been tabbed down, from 5% to 2%, now that the RBNZ has more clearly signalled interest rate increases are coming next year.

FX comment: The 40 pip fall in the NZD/USD overnight leaves it teetering on a pretty key support level. The 0.7120-0.7130 level has been tested four times since April and held, so the next few sessions could be interesting. It's really all down to the what the Fed does tomorrow morning.

Day ahead: The week's headline event (other than the cricket World Test Championship Final starting Friday 9:30pm NZT) is tomorrow morning's Federal Open Market Committee announcement (6am NZT). Our CBA colleagues expect all of the Fed's key policy measures to remain unchanged (QE, forward guidance, Fed Funds rate). However, the Fed's economic forecasts should get an upwards tweak. Most of the market's attention will be on any hints around the Fed's QE tapering timeline. There will be some focus on the Fed's 'dot plot' interest rate projections. The last iteration of such pointed to rates being on hold until at least 2024, but this could be brought forward.

Outside of the Fed, there's a smattering of US housing data tonight and tonight's (7pm) Chinese data dump is expected to show most activity indicators slowing in May, but to still-healthy levels. For NZ today, the consensus expects a re-widening in the annual current account deficit to 2.1% of GDP (10:45am), from 0.8% in Q4. **Author:** mike.jones@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7122	-0.3%	NZD/SEK	5.931	-0.2%	NZX WMP	3920.0	-0.5%	Dow	34299	-0.3%
NZD/AUD	0.9266	0.0%	NZD/DKK	4.367	-0.4%	Gold \$/o	1858.8	-0.4%	S&P 500	4246	-0.2%
NZD/EUR	0.5872	-0.3%	NZD/THB	22.2	-0.1%	WTI Oil \$/b	72.1	1.7%	NASDAQ	14073	-0.7%
NZD/JPY	78.37	-0.3%	AUD/USD	0.7686	-0.3%	Money Market (%)			FTSE	7172	0.4%
NZD/GBP	0.5057	-0.1%	EUR/USD	1.213	0.1%	90 Day BB	0.32	0.00	CAC-40	6640	0.4%
NZD/CAD	0.8679	0.0%	USD/JPY	110.1	0.0%	OCR	0.25	0.00	DAX	15730	0.4%
NZD/CHF	0.6397	-0.5%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28639	-0.7%
NZD/HKD	5.528	-0.3%	NZ	1.64	-0.01	1yr	0.36	0.00	Nikkei	29441	1.0%
NZD/SGD	0.9453	-0.2%	US	1.49	0.00	2yr	0.52	-0.01	ASX200	7379	0.9%
NZD/CNH	4.562	-0.4%	Aust	1.51	0.01	5yr	1.17	-0.02	NZX50	12696	1.1%

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