

All eyes on the US Capital this week

Eyes will be on the US Capital this week, with the new President Joe Biden due to be sworn in on Wednesday 20th January. US President Trump has confirmed he won't be there, but there will be a focus on Trump, and after last week's impeachment, the timing of a Senate trial. A trial is not expected to start ahead of President Elect Biden's inauguration on January 20. President elect Joe Biden unveiled a US\$1.9 trillion (9.4% of GDP) Covid 19 relief package which he plans on working with Congress to pass into law as soon as possible after being sworn in on Wednesday. The package includes new individual cheques for Americans as well as aid for state and local governments. Biden's proposed stimulus package is on top of the US\$935bn (4.4% of GDP) Response & Relief Act agreed last month.

In US economic data, retail sales were weaker than expected in December, and fell 0.7%, while industrial production was on the strong side of expectations and rose 1.6%. Core producer prices rose a weak 0.1% in December. Consumer sentiment fell from 80.7 to 79.2 in January.

US sharemarkets eased on Friday. It was a tough day for some bank shares - Wells Fargo fell 7.8%, shares in JP Morgan fell 1.8% and Citigroup lost 6.9% after earnings failed to beat forecasts. Banks had previously lifted solidly in the lead-up to the earnings announcements. Shares in Exxon Mobil fell 4.8% due to a regulatory probe into the oil giant. At the close, the Dow Jones index was down 0.6%, the S&P 500 index was down 0.7% and the Nasdaq index fell by 0.9%. Over the week the Dow fell 0.9%; with the S&P 500 and Nasdaq down 1.5%.

European sharemarkets fell on Friday on fears of tighter lockdowns and slow vaccine shipments across the continent. The pan-European STOXX 600 index eased 1% from 11-month highs to be down 0.8% on the week. The German Dax index lost 1.4%, and the UK FTSE index fell by 1.0%. **The NZSX 50** dipped 0.7% on Friday to be down 3.4% over the week, and down circa 3.9% on the highs of early January.

Longer-dated US treasuries rose on Friday (yields lower). US 2-year yields fell by 1 point to 0.135%. And US 10-year yields fell by around 4 points to near 1.08%. Fed Chairman Jay Powell made it clear the FOMC is a long way from any discussion on reducing policy support. Powell emphasised that "now is not the time to be talking about exit", adding that "the economy is far from our goals". Over the week US 2-year yields were flat while US 10-year yields fell by 3 points. **The NZ 10-year Gov't bond yield** also fell 3bps on the levels a week ago, and around 5bps off the mid-week highs.

FX: Major currencies were weaker against the US dollar in European and US trade, and the NZD has dipped back to trade around \$0.7150 against the USD, having pressed towards 0.7300 a week ago.

Global oil prices fell on Friday as the US dollar rose. Brent crude fell by US\$1.32 to US\$55.10 a barrel. Over the week Brent fell 1.6%. The gold futures price lost 1.2% on Friday, and spot gold was trading near US\$1,828 an ounce in late US trade.

Day ahead: There are no major releases in New Zealand or Australia today. In China, economic growth data is released with retail sales, production, unemployment, and investment. US financial markets are closed for Martin Luther King Jr day.

Week ahead: The Bank of Japan and European Central Bank meetings on Thursday will be the offshore economic highlights of the week, but the inauguration of Joe Biden on 20h January will surely take centre stage. The local data flow starts to pick up this week, with December Electronic card spending data and the NZIER Quarterly Survey of Business Opinion out tomorrow, a Global Dairy Trade event on Wednesday morning, and Q4 CPI data on Friday. The NZIER Quarterly Survey of Business Opinion is likely to confirm the continued recovery in business confidence already seen in the ANZ monthly business outlook survey. Our expectation is for modest pullback in December retail card spending, which follows sizeable jumps in September and October. We expect consumer prices to climb 0.2% in Q4, pushing headline inflation down to 1.1%. **Author:** chris.tennent-brown@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7147	0.0%	NZD/SEK	5.980	-0.3%	NZX WMP	3400.0	0.0%	Dow	30814	-0.6%
NZD/AUD	0.9276	0.1%	NZD/DKK	4.401	0.0%	Gold \$/o	1828.5	-1.0%	S&P 500	3768	-0.7%
NZD/EUR	0.5911	-0.1%	NZD/THB	21.4	-0.2%	WTI Oil \$/b	52.4	-2.3%	NASDAQ	12999	-0.9%
NZD/JPY	74.13	-0.1%	AUD/USD	0.7705	-0.1%	Money Market (%)			FTSE	6736	-1.0%
NZD/GBP	0.5250	-0.2%	EUR/USD	1.208	0.0%	90 Day BB	0.28	0.00	CAC-40	5612	-1.2%
NZD/CAD	0.9076	-0.2%	USD/JPY	103.8	0.0%	OCR	0.25	0.00	DAX	13788	-1.4%
NZD/CHF	0.6363	6.8%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28574	0.3%
NZD/HKD	5.542	0.0%	NZ	1.02	-0.04	1yr	0.26	-0.01	Nikkei	28519	-0.6%
NZD/SGD	0.9493	-0.1%	US	1.08	-0.05	2yr	0.28	-0.01	ASX200	6715	0.0%
NZD/CNH	4.635	0.0%	Aust	1.09	-0.01	5yr	0.58	-0.02	NZX50	13025	-0.7%

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