

## Latest US data exceed expectations

**Following the government's announcement yesterday, New Zealand has stepped down COVID alert levels.** As of 11.59pm last night, Auckland has moved down to Alert Level 2, whilst the rest of the country is now back at Alert Level 1. Alert level settings are likely to be reviewed again on Monday when Cabinet meets. Two cases of community transmission have been identified stemming from the so-called 'Valentine's Day outbreak.'

**US economic data out overnight beat market expectations.** Retail sales in January lifted by 5.3% over January (mkt: 1.1%), the largest advance in about seven months as new stimulus cheques were rolled out over the month and some restrictions eased. Producer prices also lifted 1.3% over the month, suggesting a pick-up in pricing pressures. Factory output continued to lift by 0.9%, ahead of expectations (survey: 0.4%). Confidence among the construction sector also lifted in the National Association of Home Builders Survey. **Elsewhere, data in the UK showed inflation picking up by 0.7% in January.**

**In the aftermath of the positive data prints, US Treasury yields have continued to oscillate near one-year highs.** With markets increasingly pegging a pick-up in inflation, the 10-year yield lifted to a high of 1.33% overnight, before paring back a shade (currently 1.29% as at the time of writing). European yields were mixed overnight.

**After hitting record highs over recent days and weeks, equities continued to soften overnight.** The S&P500 was down 0.37% and the Nasdaq had fallen 0.87% as at the time of writing, whilst the Dow had managed a small 0.05% lift. European shares were generally lower, with the pan-European Stoxx index down 0.71%. The prospect of higher inflation and its implication for the size of the next US stimulus package was one influence weighing on investors. Still, in comments at a televised town hall even yesterday, President Biden was keen to dampen any speculation the package could be shrunk, saying "now is the time we should be spending" and "now is the time to go big."

**Despite talk of a pick-up in inflation, central bank officials in the US and Australia have also continued to take a broadly dovish tone in their comments.** Speaking yesterday, San Francisco Fed Chair Mary Daly said "I am not thinking that we have unwanted inflation around the corner," and emphasised that meeting the bank's full employment target was also an important consideration. On the similar themes, the RBA's Christopher Kent emphasised that there was still spare capacity in the Aussie economy, that would take some time to close.

**A quick update on our forecasts:** Yesterday, we released our preview for the RBNZ's February Monetary Policy Statement ahead of next Wednesday's meeting. With economic data through the latter half of 2020 surprising on the upside, the economy is in a better position than the RBNZ has previously and we have revised our OCR outlook. We now expect the RBNZ to begin gradually lifting the OCR from the second half of 2022, with August 2022 as our tentative starting point. Still, the environment remains uncertain, and we expect the RBNZ to emphasise that fact in February's MPS. You can read our full report [here](#).

**In other forecast news,** we have opened our farmgate [milk price forecast](#) for the 21/22 dairy season at the \$7.30 mark. Dairy prices have proven resilient through the pandemic, but we expect the stronger NZD to begin to impact the next season.

**FX update:** The USD and JPY were the stronger performers overnight. The USD strength saw the NZD/USD trading at a lower range overnight, sitting at 0.7183 as at the time of writing. The NZD/AUD is currently trading around the 0.9271 mark.

**Day ahead:** There is little in the way of local data out today, with the key release being January employment data over in Australia at 1.30pm. Our CBA friends expect strong employment growth of +50k, with the unemployment rate easing to 6.4%. Overnight, there are a number of releases in the US, including (Jan housing starts and building permits), as well as the latest official jobless claims (mkt: 770k) and the Philadelphia Fed Business Outlook for February.

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| Currencies |        |       | Currencies                   |        |       | Commodities               |        |       | Equities |       |       |
|------------|--------|-------|------------------------------|--------|-------|---------------------------|--------|-------|----------|-------|-------|
| NZD/USD    | 0.7182 | -0.4% | NZD/SEK                      | 5.984  | 0.1%  | NZX WMP                   | 3605.0 | 2.1%  | Dow      | 31535 | 0.0%  |
| NZD/AUD    | 0.9271 | -0.2% | NZD/DKK                      | 4.438  | 0.2%  | Gold \$/o                 | 1772.2 | -1.2% | S&P 500  | 3922  | -0.3% |
| NZD/EUR    | 0.5967 | 0.2%  | NZD/THB                      | 21.6   | -0.2% | WTI Oil \$/b              | 60.4   | 0.5%  | NASDAQ   | 13920 | -0.9% |
| NZD/JPY    | 76.04  | 0.2%  | AUD/USD                      | 0.7746 | -0.2% | <b>Money Market (%)</b>   |        |       | FTSE     | 6711  | -0.6% |
| NZD/GBP    | 0.5183 | 0.0%  | EUR/USD                      | 1.204  | -0.7% | 90 Day BB                 | 0.28   | 0.00  | CAC-40   | 5766  | -0.4% |
| NZD/CAD    | 0.9125 | -0.3% | USD/JPY                      | 105.9  | 0.0%  | OCR                       | 0.25   | 0.00  | DAX      | 13909 | -1.1% |
| NZD/CHF    | 0.6456 | 0.4%  | <b>10 Yr Bond Yields (%)</b> |        |       | <b>ASB Swap Rates (%)</b> |        |       | H.Seng   | 31085 | 1.1%  |
| NZD/HKD    | 5.568  | -0.4% | NZ                           | 1.52   | 0.09  | 1yr                       | 0.29   | 0.00  | Nikkei   | 30292 | -0.6% |
| NZD/SGD    | 0.9542 | -0.3% | US                           | 1.29   | -0.03 | 2yr                       | 0.38   | -0.02 | ASX200   | 6885  | -0.5% |
| NZD/CNH    | 4.627  | 0.2%  | Aust                         | 1.41   | 0.08  | 5yr                       | 0.91   | -0.01 | NZX50    | 12674 | 0.5%  |

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