

## Fed pushes back on rate hike expectations and it is still NZ's cup

**As was widely expected, the US Federal Open Market committee (FOMC) maintained its existing policy settings**, holding the Fed Funds rate in its 0 to 0.25% target range, maintaining the rate paid on excess reserve balances at 0.1% and continuing with its USD120bn in monthly QE. The policy assessment was little changed from the January decision, with the Fed acknowledging some improvement in economic activity and employment, although inflationary pressures remained weak and Covid-19 continued to weigh on the outlook. There were no dissenters in the vote.

**As a signal that the FOMC was not for turning, the published 'dot plots' were little changed from the December update**, with the majority of members not seeing the need for rate hikes until 2024 at the earliest. This was much later than market pricing and aligned it with the views of other central banks. The published forecasts were revised up, with 6.5% growth expected for 2021 (4.2% in December), 3.3% and 2.2% expected for 2022 and 2023 (3.2% and 2.4% previously). Labour market forecasts were upgraded with the unemployment rate falling to 4.5% in 2021, 3.9% in 2022 and 3.5% in 2023, the latter two below longer-run levels (4%). However, forecasts for core PCE inflation remained close to 2%.

**The dovish Fed assessment weighed on the USD, Treasury yields dipped across the curve and US equity indices lifted.**

Prior to the Fed decision markets had largely been in a holding pattern, with the Nasdaq still below its previous open despite the post-Fed lift. Equity indices in Europe (Eurostoxx 50 0.0%, FTSE 100 -0.6%, DAX +0.3%) were little changed as were most of the equity indices in Asia (Nikkei -0.2%, ASX 200 -0.8%, NZSX 50 -0.5%).

**US Treasury yields have remained higher than the previous session close (10Y 1.63%), with those for the 10-year tenor earlier hitting their highest levels (1.69%) since the onset of Covid-19.** There was a 4-5bp lift in European 10-year yields overnight, with curves also steeper. NZ markets were more focused on the Americas Cup – well done Team NZ!!! – with a negligible lift in yields. Australian longer-term government bond yields were a touch firmer.

**Commodity prices drifted lower leading to the Fed decision but have risen as the USD weakened.** Climbing US crude supplies weighing on near-term contract prices for Brent (USD68 per barrel) and WTI (USD64.50). Prices for metals were generally firmer.

**Data was largely ignored by markets.** US housing starts (-10.3% mom) and building permits (-10.8%) were considerably weaker than expected. Eurozone February CPI inflation remained low at 0.9% yoy for headline and 1.1% yoy for core.

**There was limited market reaction after NZ Q4 current account deficit came in at 0.8% of GDP, in line with expectations and the smallest calendar year deficit since 2002.** This was despite much lower services export incomes from fewer inbound tourists. NZ's net external debt (55% of GDP) and international investment position (47% of GDP) are much lower than a decade or so ago, with our strong Terms of Trade a key support to the NZ economy and NZD. The benefits of high commodity export prices and solid demand from higher growth markets (including China) look set to support rural incomes, with ASB yesterday [revising](#) up its 20/21 Fonterra milk price to \$7.60 per kgMS for 2020/21 and retaining a positive 7.30 kgMS forecast for 21/22.

**FX Update:** The dovish Fed assessment has pushed the USD lower higher, with the kiwi towards the top of its 0.715 to 0.7240 USD overnight range. The NZD and AUD were some of the stronger performers amongst the G10, and the USD and Yen the weakest. The NZD hovered just below 93 Australian cents. Given our positive medium-term NZD view, dips to the NZD from a weaker-than-expected NZ GDP print are expected to be short-lived.

**Day ahead:** Local focus will be on Q4 NZ GDP (ASB: -0.1% qoq, 0.1% yoy, mkt: +0.2% qoq, 0.5% yoy). Given the high likelihood of significant revisions the focus will be on the level of GDP and whether the NZ economy expanded over 2020 (only just we think), highlighting NZ's comparatively strong performance over 2020. The \$500m tender of 2025, 2029, 2033 and 2040 NZ government bonds just after 2pm should go reasonably well with yields below mid-market levels. Our CBA colleagues and the market consensus expect a 30k lift in February employment in Australia, with the unemployment expected to fall to their lowest level in close to a year (mkt: 6.3%, CBA 6.2%). The Bank of England is expected to maintain current settings in its decision tonight. Initial US jobless claims (mkt: 700k, prior 712k) are expected to fall to their lowest level since March 2020. **Author:** [mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7239	0.7%	NZD/SEK	6.119	0.2%	NZX WMP	4045.0	-0.4%	Dow	33027	0.6%
NZD/AUD	0.9285	0.0%	NZD/DKK	4.493	0.0%	Gold \$/o	1748.1	1.0%	S&P 500	3968	-0.1%
NZD/EUR	0.6042	0.0%	NZD/THB	22.2	1.3%	WTI Oil \$/b	64.4	-0.6%	NASDAQ	13538	0.5%
NZD/JPY	78.80	0.0%	AUD/USD	0.7796	0.6%	<b>Money Market (%)</b>			FTSE	6763	-0.6%
NZD/GBP	0.5192	0.3%	EUR/USD	1.198	0.6%	90 Day BB	0.33	0.00	CAC-40	6055	0.0%
NZD/CAD	0.8987	-0.5%	USD/JPY	108.9	-0.1%	OCR	0.25	0.00	DAX	14597	0.3%
NZD/CHF	0.6675	0.4%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	29034	0.0%
NZD/HKD	5.621	-0.3%	NZ	1.77	0.01	1yr	0.37	0.00	Nikkei	29914	0.0%
NZD/SGD	0.9705	0.3%	US	1.64	0.02	2yr	0.54	0.01	ASX200	6795	-0.5%
NZD/CNH	4.664	0.0%	Aust	1.73	0.03	5yr	1.20	0.01	NZX50	12622	-0.5%

## ASB Economics &amp; Research

			Phone	Fax
Chief Economist	Nick Tuffley	<a href="mailto:nick.tuffley@asb.co.nz">nick.tuffley@asb.co.nz</a>	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	<a href="mailto:mark.smith4@asb.co.nz">mark.smith4@asb.co.nz</a>	(649) 301 5657	
Senior Economist	Mike Jones	<a href="mailto:mike.jones@asb.co.nz">mike.jones@asb.co.nz</a>	(649) 301 5661	
Senior Economist	Jane Turner	<a href="mailto:jane.turner@asb.co.nz">jane.turner@asb.co.nz</a>	(649) 301 5853	
Senior Economist, Wealth	Chris Tennent-Brown	<a href="mailto:chris.tennent-brown@asb.co.nz">chris.tennent-brown@asb.co.nz</a>	(649) 301 5915	
Economist	Nat Keall	<a href="mailto:nathaniel.keall@asb.co.nz">nathaniel.keall@asb.co.nz</a>	(649) 301 5720	
Publication and Data Manager	Judith Pinto	<a href="mailto:judith.pinto@asb.co.nz">judith.pinto@asb.co.nz</a>	(649) 301 5660	

ONE STEP AHEAD

Click here to read the latest  
ASB Economic Reports<https://reports.asb.co.nz/index.html>[@ASBMarkets](https://twitter.com/ASBMarkets)ASB Economics  
ASB North Wharf, 12 Jellicoe Street, Auckland

## Important Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.