

## Surprises keep on coming

**Data yesterday from Stats NZ showed growth over Q1 was much, much stronger than anyone had forecast.** NZ GDP lifted 1.6% qoq over the March quarter – massively outperforming the circa 0.5% consensus forecast, and our own 0.8% pick. There were some solid lifts across the board, with consumption, investment and government-related activity all posting gains. Activity in the retail and services sectors was much stronger than anticipated, while construction activity came roaring back after its fall in Q4 (we'll have to wait and see whether capacity constraints rain on that parade over the coming quarter).

**There's an increasing risk the RBNZ lifts the OCR earlier than we'd previously forecast (we had pencilled in May 2022).** At the MPS three weeks ago, the bank was pegging GDP would *fall* 0.6% over Q1. With domestic demand clearly proving resilient and cost pressures on the rise, the odds that inflation will outstrip the RBNZ's forecasts and the labour market will tighten by more than expected have continued to shorten. Certainly, markets took that view, with swap rates moving up sharply off the back of the result. As always, we have a few caveats to add: GDP figures have been uber-volatile of late and its likely Q2 growth will be a wee bit softer, and that's without mentioning the uncertain impact of the 'delta' COVID variant. **Still, the ongoing shift in the balance of risks is clear and unambiguous.**

**NZ GDP wasn't the only eye-popping data release– Aussie labour market data was also on the strong side.** Employment lifted 115.2k over May, versus expectations of a 30k lift (neither of those figures are typos). The unemployment rate also fell more sharply than expectations (5.1% vs mkt: 5.5%). With forward indicators looking strong, our CBA friends reckon the labour market will continue to tighten. It'll be worth watching the next RBA meeting to see whether the data prompts the Bank to adjust its dovish tone. Governor Lowe delivered a speech yesterday, but he largely stuck to the script.

**There's a common theme in yesterday's antipodean data and the Fed's own substantial forecast revision.** While many countries around the world are still struggling with COVID outbreaks, growth and employment data continues to surprise on the upside in North American and Australasia. With inflationary pressures lifting in tandem, the start of the tightening cycle looks much closer than it did even a matter of months ago. **The RBNZ isn't the only central bank globally being caught short by stronger-than-expected data, but we still expect it to towards the front of the policy normalisation queue.**

**Risk sentiment has weakened a bit overnight.** The global reflation trade took something of a pause as shorter-dated US Treasury yields edged up, while longer dated yields fell. As at the time of writing, the 10-year yield sits at 1.514%. Yields were mostly higher across Europe. Equities have had a mixed night amid the US jobless report (see below), with the Nasdaq the stand-out performer amid continuing gains for tech shares (+1%).

**Overnight data wrap:** US initial jobless claims posting a surprise lift (412k vs mkt: 360k). While Eurozone CPI was in line with expectations at +0.3% mom.

**FX Update:** The NZD has been a bit event-driven in the last 24 hours. Having shed around a cent in the aftermath of the Fed announcement, NZD/USD recovered a shade in the aftermath of the bullish NZ GDP read, before resuming its slide overnight as risk sentiment has turned softer. NZD/USD remains towards the bottom end of its overnight range around 0.701, some of its lowest levels since late March. The change in risk tone means it's been a good night for the safe-haven USD and JPY, but a weaker one for most other G10 currencies. NZD/AUD was little changed at around 0.928.

**Day ahead:** We'll have time to take a breather after yesterday's packed calendar. There's no data whatsoever out domestically, or over in Oz. Overnight there's also little to highlight in Europe or North America. **Author:** [nathaniel.keall@asb.co.nz](mailto:nathaniel.keall@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7005	-0.7%	NZD/SEK	5.992	0.5%	NZX WMP	3870.0	-0.5%	Dow	33903	-0.4%
NZD/AUD	0.9275	0.1%	NZD/DKK	4.376	0.1%	Gold \$/o	1776.7	-1.9%	S&P 500	4227	0.1%
NZD/EUR	0.5884	0.1%	NZD/THB	22.0	-0.2%	WTI Oil \$/b	70.8	-1.9%	NASDAQ	14181	1.0%
NZD/JPY	77.26	-0.2%	AUD/USD	0.7551	-0.8%	<b>Money Market (%)</b>			FTSE	7153	-0.4%
NZD/GBP	0.5030	-0.2%	EUR/USD	1.190	-0.8%	90 Day BB	0.33	0.01	CAC-40	6666	0.2%
NZD/CAD	0.8653	0.0%	USD/JPY	110.3	-0.4%	OCR	0.25	0.00	DAX	15728	0.1%
NZD/CHF	0.6428	0.3%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	28559	0.4%
NZD/HKD	5.439	-0.6%	NZ	1.79	0.13	1yr	0.39	0.01	Nikkei	29018	-0.9%
NZD/SGD	0.9404	-0.2%	US	1.52	-0.06	2yr	0.64	0.07	ASX200	7359	-0.4%
NZD/CNH	4.523	0.1%	Aust	1.65	0.10	5yr	1.32	0.06	NZX50	12541	-0.3%

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