

Hello Aussie. Let's get together!

Today is the day that we open the bubble with Australia. This has many economic implications. Most importantly, we hope that this marks another big step back towards life as we knew it, and reconnections with family and friends abroad.

On the local data front, the latest BNZ manufacturing PMI suggest the local manufacturing sector received a strong boost in new orders as well as a lift in production during March. The seasonally-adjusted PMI for March was 63.6. The PMI readings above 50.0 indicate the manufacturing sector is expanding, while readings below 50.0 point to a decline. The March reading was significantly up from February, and the highest monthly result since the survey began in 2002.

China's GDP growth over Q1 underwhelmed consensus (actual: 0.6%, consensus: 1.4%) and is historically very weak. The last time the Chinese economy expanded by such a modest quarterly amount was during the worst period of the Global Financial Crisis. Nevertheless, we expect the Chinese economy to regain its footing as the continued improvement in the global economy spills over into Chinese exports. The 18.3% yoy growth rate was a record and is a reflection of the recovery from the low starting point last year due to the COVID 19 lockdown.

US economic data were strong, with housing starts up 19.4% in March to an annual rate of 1.739 million units - the highest level since June 2006 (survey: +13.5%). Building permits rose 2.7% to a rate of 1.766 million units (survey: +1.7%).

US shares ended the week setting fresh record highs on Friday, with the recent run of strong earnings and economic data buoying sentiment. Both the Dow Jones Industrial Average and the S&P 500 closed at all-time highs, while the NASDAQ is only 0.3% off its record close set back in February. For the week, the S&P 500 index rose 1.4%, the Dow Jones index added 1.2% and the Nasdaq index gained 1.1%.

European sharemarkets advanced on Friday. The pan-European STOXX 600 index closed up by 0.9% to a record high, and was 1.1% higher over the week. Auto stocks climbed 2.1% after strong quarterly earnings from Daimler (+2.7%). The German Dax index gained 1.3% to hit an all-time high, while UK's FTSE 100 index was up 0.5%, closing at over one-year highs.

The local S&P/NZX 50 sharemarket index rose 0.3% Friday, despite fund manager BlackRock selling more than \$1 billion worth of shares in Contact Energy and Meridian Energy. It appears that the passive fund management selling was met with active fund manager and investor buying, as both stocks rose on Friday (Source Good Returns, [read more here](#)). Despite the gains last week, the S&P/NZX 50 index is still trading 6-7% off the levels of early 2021, which reflects how much the energy stocks' prices have been knocked around by the clean energy exchange-traded fund roller coaster over the past few months, as discussed in the Good Returns article linked above.

FX comment: Major currencies were stronger against the US dollar in European and US trade. The NZD ended the week fairly flat, in the middle of Friday's range (largely between 0.7130-0.7170).

Day ahead: No data are due in our time zone today. Offshore, there may be some interest in Canada's 2021 Federal Budget tonight. The Liberal Government's Budget should provide major spending to jumpstart Canada's recovery. But the Liberals need the support of at least one opposition party to pass the Budget, otherwise a snap election could be triggered.

Week ahead local: The Consumer Price Index (CPI) for Q1 2021 is due on Wednesday. We are expecting a 0.8% qoq outcome, slightly below RBNZ expectations of a 1.1% lift. We expect positive contributions from petrol and housing. Some well-publicised issues with the movement of global freight and supply chain disruptions are also likely to provide some upward impetus. Looking ahead, we expect annual headline inflation to move above 2% for the rest of this year and next as a perfect storm of stretched capacity, supply bottlenecks, and higher costs flow through to consumer prices.

Week ahead offshore: The RBA April meeting minutes are due on Tuesday, but with the April Board meeting being a low-key affair, the minutes shouldn't spark too much action in Aussie financial markets. Nonetheless, the minutes should reflect the view made after the April cash rate decision and say the Board does not expect the conditions that would require lifting the cash rate target to be met until "2024 at the earliest". This 'on hold for ages' view is like what other central banks are saying, but as odds with the lift on yields around the world this year. We expect the Bank of Canada (BoC) to remain on hold on Wednesday, but the risk is the BoC lays out a plan to moderate the pace of bond purchases from the current clip of at least C\$4bn/week. On Thursday the ECB is widely expected to make no policy or forward guidance changes. The ECB's decision to scale up the pace of asset purchases under the pandemic emergency purchase programme over Q2 has so far been successful considering that European bond yields have been somewhat range bound since the March meeting. The preliminary readings of the Markit PMIs are released for UK and the Eurozone on Friday. The data will provide an up to date reading on economic activity in April. **Author:** chris.tennent-brown@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7143	0.0%	NZD/SEK	6.034	0.1%	NZX WMP	4185.0	0.5%	Dow	34201	0.5%
NZD/AUD	0.9245	0.1%	NZD/DKK	4.435	0.0%	Gold \$/o	1776.5	0.7%	S&P 500	4185	0.4%
NZD/EUR	0.5965	0.0%	NZD/THB	22.3	1.6%	WTI Oil \$/b	63.1	-0.5%	NASDAQ	14052	0.1%
NZD/JPY	77.70	0.0%	AUD/USD	0.7727	-0.1%	Money Market (%)			FTSE	7020	0.5%
NZD/GBP	0.5166	0.1%	EUR/USD	1.198	0.0%	90 Day BB	0.34	-0.01	CAC-40	6287	0.8%
NZD/CAD	0.8934	-1.1%	USD/JPY	108.8	0.0%	OCR	0.25	0.00	DAX	15460	1.3%
NZD/CHF	0.6569	0.0%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28970	0.6%
NZD/HKD	5.553	-1.5%	NZ	1.63	-0.05	1yr	0.35	0.00	Nikkei	29683	0.1%
NZD/SGD	0.9532	0.0%	US	1.58	0.00	2yr	0.45	0.01	ASX200	7063	0.1%
NZD/CNH	4.661	0.0%	Aust	1.74	-0.03	5yr	1.05	0.00	NZX50	12685	0.4%

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