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Stocks mark time ahead of key corporate earnings

Markets are awaiting corporate earnings data later this week for signs of a post-pandemic bounce. There are a number of tailwinds supporting corporate earnings, most notably the economic rebound, fuelled by the massive dollop of policy stimulus and vaccine rollouts. There is also a mountain of additional household saving (USD5.4 trillion worldwide or 6%+ of global GDP according to Moody's) that could be unleashed. The FT reports Q1 corporate earnings from the S&P500 are expected to climb 25% yoy. Various analysts have started to revise up predictions for global stocks over 2021. Hopefully some of this will go NZ's way, with the opening of the Trans-Tasman bubble yesterday a positive sign.

Clouds remain and there is scope for disappointment if these bullish expectations are not met. Media reports cite a climb in global COVID-19 cases (a record 5.2 million over the last week) due to a surge of cases in emerging economies (led by India and Brazil) and concerns over the spread of COVID-19 variants. The UK has added India to its travel ban list to non-residents. The global death toll continued to move above 3 million. Rare cases of blood clots seen in the Johnson & Johnson and AstraZeneca vaccines have also reportedly fuelled increased resistance and scepticism over the vaccines.

Overnight, global equities retreated from record highs. Leading modest falls in US indices were the technology sector, with Tesla shares down following reported fatalities. Small cap stocks underperformed. European bourses were also a shade lower. There were no major data out overnight to confirm the improving economic narrative. Eurozone construction output contracted 2.5% in February (-5.8% yoy) with a sizeable current account surplus delivered in February (€25.9bn). The major Asian equity indices were generally higher, with outsized gains in Chinese indices as concerns over beleaguered Chinese SOE Huarong Asset Management eased. Indian stocks fell to 2-month lows on surging COVID-19 cases.

There was a modest lift in US Treasury yields overnight (10Y 1.60%), with a mild curve steepening bias. With the exception of UK 10-year yields (down 1bps), European 10-year yields were up 2-4bps. Australasian yields were a fraction lower yesterday. The weaker USD broadly supported commodity prices, with a modest lift in oil prices overnight. Oil prices have gained close to 30% since the start of the year, outpacing rises of other commodities.

Improving signs were evident on the NZ dataflow. Led by firming new orders (56.9) and activity (54.5), the March NZ Performance of Services Index rose to 52.4 (49.7 prior), the first 50+ reading since October. Weak readings for supplier deliveries (43.5) and stocks (48.9) highlighted the impact of supply chain frictions, which could slow activity. The PSI compared with a record 63.6 reading for the manufacturing PMI that had been boosted by jumping new orders (72.6), production (66.8) and deliveries (62.8).

FX comment: Sterling was the currency standout, likely boosted by the reopening of the UK service sector amid swift vaccine rollouts. The USD, CAD and AUD were the major underperformers amongst the G10 currencies, with the NZD somewhere in the middle. The NZD traded in a 0.7130 to 0.7200 USD range overnight and has moved above 92.5 Australian cents. Strengthening prices for agricultural commodities (we expect a solid dairy auction result tonight) are expected to provide NZD support.

Day ahead: Locally we have non-resident bond holdings for March (51.7% prior), followed by the GDT auction tonight (signs are pointing up) and tomorrow's Q1 NZ CPI print. The Canadian Federal Budget is released this morning that will likely unveil sizeable increases for government spending. The RBA April meeting minutes (1:30pm) should be a low-key affair, with focus on discussion around the "2024 at the earliest" signal for the cash rate and discussion on whether the April 24 bond should be maintained as the target bond for the RBA's yield curve control policy (versus a shift to the November 2024 bond). The People's Bank of China is expected to hold its key prime rates (1y 3.65%, 5Y 4.65%) as part of its monetary policy strategy. Key February/March UK labour market data are also out. **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7174	0.5%	NZD/SEK	6.029	0.0%	NZX WMP	4165.0	-0.5%	Dow	34034	-0.5%
NZD/AUD	0.9255	0.2%	NZD/DKK	4.433	0.0%	Gold $/o	1770.7	-0.3%	S&P 500	4157	-0.6%
NZD/EUR	0.5961	-0.1%	NZD/THB	22.4	2.0%	WTI Oil $/b	63.5	0.5%	NASDAQ	13888	-1.2%
NZD/JPY	77.59	-0.1%	AUD/USD	0.7751	0.3%	**Money Market (%)**			FTSE	7000	-0.3%
NZD/GBP	0.5129	-0.6%	EUR/USD	1.204	0.5%	90 Day BB	0.34	0.00	CAC-40	6297	0.2%
NZD/CAD	0.8997	-0.4%	USD/JPY	108.2	-0.6%	OCR	0.25	0.00	DAX	15368	-0.6%
NZD/CHF	0.6566	0.1%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	29106	0.5%
NZD/HKD	5.572	-1.1%	NZ	1.60	-0.03	1yr	0.35	0.00	Nikkei	29685	0.0%
NZD/SGD	0.9543	0.2%	US	1.60	0.02	2yr	0.45	-0.01	ASX200	7066	0.0%
NZD/CNH	4.669	0.0%	Aust	1.72	-0.02	5yr	1.03	-0.02	NZX50	12768	0.7%

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