

## Fed minutes hint at taper talk

**The release of the latest Fed minutes has been the big development overnight.** Covering their April meeting, the minutes provided the first hints that some Fed members are beginning to think about the timeline for tightening policy – albeit very, very cautiously. The juicy line in the summary was “a number of participants suggested that if the economy continued to make rapid progress towards the committee’s goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases. So still very cautious in other words – it might be more accurate to say some Fed members are thinking about when to think about the timeline for discussing tightening.

**Unsurprisingly, Treasury yields lifted in the aftermath of the statement.** US Treasury yields were broadly higher across the board, with the curve under steepening pressure and a fairly sharp move in the 10-year (10-year: 1.674%). The move in US yields contrasted with European bonds, which were mixed overnight. There were a few comments from ECB officials out overnight too, with the bank warning of a surge in insolvencies when pandemic support measures are lifted, but nothing too ground-breaking.

**It’s been a soggy session for sharemarkets.** Things were already choppy before the Fed minutes came out. All three US equity indices then bounced after the release of the minutes, before resuming their declines as markets digested the minutes’ implications. As of the time of writing, the Dow is down 0.85%, the S&P500 is down 0.74% and the Nasdaq is down 0.36%. It’s a sea of red across the Atlantic in Europe too.

**If sharemarkets have been ‘choppy’ overnight, than Bitcoin has gone on a truly wild ride.** The cryptocurrency plunged 31% at one stage, before surging by 33%. Once again, our friend Elon Musk was playing a prominent roll in proceedings. Having helped kick off bitcoin’s volatility over recent weeks with his comments on its environmental impacts, tweets by Musk helped rescue it from its crash. In what must be the world’s first case of an emoji arresting a sell-off, traders interpreted a ‘diamond hands’ symbol tweeted by Musk as a message Tesla wouldn’t sell its remaining holdings. Swings were large enough that some trading exchanges suffered outages. Most other major cryptocurrencies are still down quite substantially.

**We’ve had a few bits and pieces of inflation data out yesterday and overnight, but most results were broadly in line with expectations.** Stats NZ data showed a modest lift in producer prices (+1.2%). Q1 Aussie wage growth was a bit stronger than expected (+0.6% qoq vs mkt: 0.5%). UK inflation was exactly in line with expectations (+0.6% mom), and it was the same story in the Eurozone (+0.6% mom).

**FX update:** The choppy tone in risk sentiment saw the safe-haven USD and JPY perform well. Conversely, the NZD was lower against most of its G10 peers. As at the time of writing, the NZD/USD is down around 0.716 and NZD/AUD down around 0.928.

**Day ahead:** Today it’s all about the NZ Budget, out at 2pm. The NZ economy has fared much better than once feared (in part thanks to the government’s swift and prudent action), and as a consequence we’re expecting things to look less gloomy than they did throughout 2020. Smaller deficits and lower public debt the order of the day, as well as a trimmed bond issuance programme. Nevertheless, it will be a tough balancing act this year, with the government needing to balance prudent stewardship of the public finances with keeping fiscal conditions supportive. You can read our full preview [here](#).

Otherwise, the day’s highlight will be the April Aussie employment data. Our CBA friends reckon the unemployment rate will drop from 5.6% to 5.4%, with a lift in employment of 40k. Overnight, the usual weekly job claims data is out in the US.

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