

FOMC still hangs over the market, bad weather hangs over the cricket

It was a great night for Black Caps fans, with the Kiwis bowling out India for 217, then putting on 101-2. Due to the wash out on day one, the test can be extended for a further day, but weather could still dictate the outcome.

Market sentiment continues to be influenced by the US FOMC meeting last Thursday. US sharemarkets retreated on Friday on worries that the US Federal Reserve could start raising interest rates sooner than expected. St. Louis Federal Reserve President James Bullard said he thinks US interest rate increases will begin next year as inflation rises faster than expected. Volatility was also heightened due to the quarterly expiration of both US options and futures contracts. The Dow Jones index dipped 1.6%. The S&P 500 index fell 1.3% and the Nasdaq index lost 0.9%. For the week, the Dow slid 3.5% - its worst weekly loss since October 2020. The S&P 500 fell 1.9% and the Nasdaq lost 0.3%.

Despite the less dovish FOMC and inflation concerns in markets these days, US 10-year yields dipped 7bps on Friday, to trade around similar levels to a week ago. But short-dated US Treasury yields rose on Friday after St. Louis Federal Reserve President James Bullard said, "I think it's natural that we've tilted a little bit more hawkish here to contain inflationary pressures." US 2-year yields rose by 4 points to 0.2521% after touching 0.284%, the highest level since April 2020. Over the week US 2-year yields lifted 10 points but US 10-year yields lost 1 point.

The local sharemarket was up only 0.1% on Friday, but within the index A2 Milk recovered 6.3% to \$6.75, while Synlait Milk was up 5.5% at \$3.81. Despite the positive sentiment about vaccinations and global growth prospects recently, Air New Zealand's latest announcement was a reality check on the prospects for international tourism, with the company stating it did not expect "any meaningful recovery in long-haul demand in the 2022 financial year".

Meanwhile, **NZ yields kicked up last week**, with the 5- and 10-year bond yields lifting 16 and 14 basis points, respectively, while 1- to 10-year swaps rose between 9 and 18 basis points over the week.

Global oil prices rose on Friday and posted a fourth straight weekly gain after OPEC sources said the producer group expected limited US oil output growth this year. Over the week Brent rose by 1.1% to US\$73.51 a barrel.

FX comment: The USD strength in the wake of last week's FOMC meeting has more than offset any NZD support from the Q1 NZ GDP data, and NZD has dipped to the lowest level in the last three months. The major currencies were also weaker against the US dollar in European and US trade on Friday. NZD/USD starts the week trading under 0.7000. AUD has also slipped due to the USD strength, while the NZD/AUD cross rate starts the week under 0.9300.

Day ahead: It's a very quiet start to the week, with no local data due. Across in Australia, we expect data today to show a solid lift in preliminary retail trade of 1.5% in May. China's loan prime rates are announced. In the US, the Chicago Federal Reserve national activity index is released. **Week ahead local:** The May Trade balance (Friday) is the only data expected this week. **Week ahead offshore:** It's a light week for data. In Australia, State Budgets are due in NSW and SA on Tuesday. Final readings of PMI data in the UK and eurozone are unlikely to change the tone in markets (Wednesday). The Bank of England is widely expected to make no policy changes at its meeting on Thursday. It will be Chief Economist Andrew Haldane's last policy-setting meeting and he will likely vote again to reduce the scale of bond purchases. We expect the US PCE deflator surged over the year to May 2021, in line with the sharp rise in the already-released CPI data (Friday).

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6937	0.0%	NZD/SEK	5.980	0.1%	NZX WMP	3865.0	-0.1%	Dow	33290	-1.6%
NZD/AUD	0.9269	0.1%	NZD/DKK	4.351	0.1%	Gold \$/o	1764.2	-0.5%	S&P 500	4166	-1.3%
NZD/EUR	0.5851	0.1%	NZD/THB	21.8	0.1%	WTI Oil \$/b	71.6	0.8%	NASDAQ	14030	-0.9%
NZD/JPY	76.47	0.0%	AUD/USD	0.7484	0.0%	Money Market (%)			FTSE	7017	-1.9%
NZD/GBP	0.5021	0.0%	EUR/USD	1.186	-0.1%	90 Day BB	0.33	0.01	CAC-40	6569	-1.5%
NZD/CAD	0.8641	0.1%	USD/JPY	110.3	0.0%	OCR	0.25	0.00	DAX	15448	-1.8%
NZD/CHF	0.6398	0.0%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28801	0.8%
NZD/HKD	5.391	0.0%	NZ	1.78	0.00	1yr	0.44	0.04	Nikkei	28964	-0.2%
NZD/SGD	0.9336	0.1%	US	1.44	-0.07	2yr	0.68	0.05	ASX200	7369	0.1%
NZD/CNH	4.482	0.1%	Aust	1.60	-0.05	5yr	1.34	0.04	NZX50	12552	0.1%

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