

Wall Street lower on tax speculation

US sharemarkets moved lower overnight, following reports President Biden wants to increase capital gains tax. The President reportedly wants to almost double the tax to 43.4% in order to fund education and other spending priorities. There is a lot of water to pass under the legislative process bridge, but equities fell on speculation there could be a near term sell-off to take advantage of the current (and lower) rate. The Dow fell 1.02%, the S&P 500 fell 0.69% and the Nasdaq fell 1.04%. **Despite the overnight drop, a bit of context is necessary, with sharemarkets still well up over the month.** Biden was rather busy overnight, launching an ambitious climate pledge to slash greenhouse gas emissions.

Elsewhere, European shares were largely higher overnight. Despite the occasional wobble (like on Wall Street last night), global share markets have largely ignored near term headwinds lately, like the rapid rise in COVID cases in some parts of the world (particularly in India – you can see [here](#) the seven day moving average resembles a vertical line). Instead, the focus has remained on the broader economic recovery, the steady pace of the vaccine rollout in the US, and the promises by policymakers to keep the stimulus floodgates open for some time to come.

Despite the moves on Wall Street, economic data overnight was largely positive. US initial jobless claims were significantly lower than had been expected (547k vs mkt: 610k). Eurozone consumer confidence was stronger than markets had expected (albeit still negative), though PMI data was slightly softer. In the UK, manufacturing optimism hit its highest level since the 1970s.

At the latest ECB meeting overnight, the bank kept policy settings unchanged and largely maintained a dovish stance. At a press conference following the meeting, ECB President Christine Lagarde emphasised the bank's commitment to keeping highly accommodative policy settings for the time being, stating "reserving favourable financing conditions over the pandemic period remains essential to reduce uncertainty and bolster confidence, thereby underpinning economic activity and safeguarding medium-term price stability." Lagarde also highlighted the uncertainty remaining and noted that recent data suggests Eurozone economic activity may have contracted in the first part of the year (on that note, [Germany](#) has just entered its first nationwide lockdown). **Largade said it was 'simply premature' to discuss any phasing out in stimulus – but analysts suggested the matter could be up for discussion at the next meeting in June if hawkish ECB members get their way.**

European yields were higher across the curve in the aftermath of the ECB meeting, despite Lagarde's efforts. Elsewhere, there was little movement in US bonds (10-year Treasury yield 1.55%).

Local Recap: With little in the way of pivotal events or major data releases it was another quiet day in Australasia. Equities were positive, with both the ASX (+0.83%) and NZX (+0.34%) making modest gains. Yields edged lower across the NZ and Aussie curves, with a flattening bias evident.

FX comment: The Wall Street wobble saw safe-haven currencies benefit overnight, with the USD and JPY being the big winners. By contrast, NZD and AUD underperformed. As at the time of writing NZD/USD had fallen to around 0.716, while NZD/AUD was down marginally to 0.929.

Day ahead: Another day with little of note in terms of Australasian data, with Aussie PMI readings at 11am breaking up an otherwise quiet day. Overnight, US and European PMI data will be watched for signs of a strengthening recovery. **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7164	-0.6%	NZD/SEK	6.039	-0.4%	NZX WMP	4120.0	-0.6%	Dow	33834	-0.9%
NZD/AUD	0.9292	-0.1%	NZD/DKK	4.434	-0.5%	Gold \$/o	1783.4	-0.6%	S&P 500	4140	-0.8%
NZD/EUR	0.5963	-0.5%	NZD/THB	22.5	-0.3%	WTI Oil \$/b	61.4	0.0%	NASDAQ	13826	-0.9%
NZD/JPY	77.40	0.0%	AUD/USD	0.7710	-0.6%	Money Market (%)			FTSE	6938	0.6%
NZD/GBP	0.5176	0.0%	EUR/USD	1.202	-0.2%	90 Day BB	0.35	0.00	CAC-40	6267	0.9%
NZD/CAD	0.8957	-0.6%	USD/JPY	108.0	0.0%	OCR	0.25	0.00	DAX	15321	0.8%
NZD/CHF	0.6573	-0.6%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28755	0.5%
NZD/HKD	5.560	-0.7%	NZ	1.55	-0.04	1yr	0.36	0.00	Nikkei	29188	2.4%
NZD/SGD	0.9525	-0.6%	US	1.55	-0.01	2yr	0.46	-0.01	ASX200	7055	0.8%
NZD/CNH	4.654	-0.5%	Aust	1.71	-0.03	5yr	1.01	-0.03	NZX50	12577	0.3%

Due to a data error, some of the % changes in yesterday's Daily Alert calculated incorrectly. We have rectified the issue and apologise for any inconvenience.

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