

Powell in the hot seat

The overnight highlight has been Jerome Powell’s testimony to congress. The Fed Chair walked a fine line after last week’s less dovish FOMC, acknowledging the risk inflationary pressures could prove stronger and more resilient than the Bank expects, but without pre-empting things too much. Powell was keen to reassure markets, arguing that the overshoot in inflation data could partly be explained by “categories that are directly affected by the re-opening of the economy” and would likely wane.

There were a few additional comments from other Fed officials overnight, which were mixed in tone. The San Francisco Fed’s Mary Daly, echoed the Bank’s more hawkish turn at the last meeting by saying “I’m bullish on the recovery” and progress towards targets was “within our line of sight - I think it’s possible we could even get there sometime late this year, early next year.” Conversely, the Cleveland Fed’s Loretta Mester was keen to emphasise a ‘wait and see mantra’, stating “I think we are going to get more clarity [on the position of the labour market] as we get through the summer.”

None of the Fed comments seem to have phased the bond market too much. Yields are trading in a lower range in the aftermath of Powell’s comments, after falling earlier in the night, though there has also been a bit of curve steepening underway. As at the time of writing the 10-year Treasury yield sits around 1.47%.

Risk sentiment has been supported more broadly, with sharemarkets posting modest gains. There have been some nice bumps on Wall Street, with the Dow up 0.42%, S&P500 up 0.64% and Nasdaq up 0.85% (usual story about Tech shares outperforming). There are similar gains across the pond in Europe, so it’s been a fairly strong session altogether.

In commodity markets, oil prices are still trading near six-year highs. We’ve seen oil head north over the start of the week following the news that the Iranian presidential ‘election’ has been ‘won’ by the hardliner Ebrahim Raisi, dimming the prospect of the country’s reintegration into global energy markets. **Stay tuned for the ASB Commodity Index later today.**

Local recap: Sunny weather locally, acting as a nice synecdoche for the positive climate more broadly. Consumer confidence figures in both Aussie and NZ rose from lofty bases even further into expansionary mode, while NZ electronic card spending accelerated (+8.5% vs +2.7% prev.). A sea of green for equity markets across the Asia-Pacific (NZX: +0.28%), while bond yields rose and the curve steepened.

FX comment: A retreat for the USD has been in vogue overnight, as is traditional when risk sentiment is on the up. Conversely, the NZD has posted some of the stronger gains in the G10, though the NZD/USD remains well south of its range pre the Fed meeting last week (our own view remains constructive). All up, the NZD/USD is trading around 0.703 as at the time of writing, while NZD/AUD sits just below 0.930.

Day ahead: Now for goings-on in the Antipodes today. Overnight, we’ve got the BoE out – the last meeting attended by its somewhat eccentric Chief Economist Andy Haldane, arguably the world’s most visibly hawkish central bank official. The BoE is expected to hold its policy settings unchanged, but markets will be watching to see how many other voting committee members join him on the hawkish side of the aviary. US PMIs and new home sales (mkt: +0.4% mom) are the overnight data highlights. **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7029	0.6%	NZD/SEK	5.956	-0.1%	NZX WMP	3845.0	-0.3%	Dow	33987	0.3%
NZD/AUD	0.9299	0.3%	NZD/DKK	4.375	0.3%	Gold \$/o	1777.1	-0.3%	S&P 500	4256	0.7%
NZD/EUR	0.5883	0.3%	NZD/THB	22.3	0.9%	WTI Oil \$/b	73.1	-0.8%	NASDAQ	14256	0.8%
NZD/JPY	77.75	0.8%	AUD/USD	0.7559	0.3%	Money Market (%)			FTSE	7090	0.4%
NZD/GBP	0.5037	0.4%	EUR/USD	1.195	0.2%	90 Day BB	0.34	0.01	CAC-40	6612	0.1%
NZD/CAD	0.8649	0.2%	USD/JPY	110.6	0.3%	OCR	0.25	0.00	DAX	15636	0.2%
NZD/CHF	0.6451	0.6%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28310	-0.6%
NZD/HKD	5.459	0.6%	NZ	1.82	0.08	1yr	0.47	0.00	Nikkei	28884	3.1%
NZD/SGD	0.9445	0.7%	US	1.47	-0.02	2yr	0.75	0.02	ASX200	7342	1.5%
NZD/CNH	4.554	0.3%	Aust	1.60	0.07	5yr	1.40	0.03	NZX50	12535	0.3%

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