

ECB keeping the taps on

After its wobbles earlier in the week, market sentiment has continued to strengthen overnight. There has been a modest ‘risk on’ skew, with equities lifting (particularly for riskier tech-based stocks), commodity prices advancing and safe-haven currencies broadly lower. All-up, it’s another bit of confirmation that reflation trade is ‘not dead, just resting,’ as we stated yesterday. That comes despite our first bit of soggy US data in a while, with US initial jobless claims lifting to 419k, despite expectations of a fall to 350k (though it’s a mistake to obsess too much about the week-to-week movement).

Global share markets remain a bit below the highs they hit last week but have notched up some lifts overnight. On Wall Street, the tech-heavy Nasdaq has benefitted from the tone the most, up 0.37%. The Dow is up 0.15% and the S&P 500 has lifted 0.21%. Things are also looking pretty green in Europe, with the exception of the UK FTSE (-0.43%) – that may reflect a bit of EU-UK tension overnight, with the European Commission rejecting the UK government’s attempt to overhaul the Brexit deal’s Northern Ireland protocol.

Global bond yields are lower right across the board, with yield curves under flattening pressure. Treasuries are now the exception, with the 10-year yield now sitting at 1.255%, only a little above the five-month lows it hit earlier in the week. Yields are similarly lower in Europe. The key event overnight has been a dovish assessment by the European Central Bank (a full breakdown is below for your pleasure).

The ECB has very much stuck to a dovish tone at its latest statement, as was expected by all and sundry. The European recovery hasn’t been proceeding at the same pace as it is elsewhere (cc: US, Aussie and NZ) and its fiscal stimulus is more logistically challenging. So as a consequence, the folks in Frankfurt are sticking doggedly to the dovish mantra even as their global peers have begun to shift in a more hawkish direction. Sure enough, the ECB council confirmed its willingness to see inflation pass above 2% for a while, with President Christine Lagarde emphasising policy would stay ‘persistently accommodative.’ The general consensus among analysts (including yours truly) is that the ECB will be one of the later major developed-world central banks to start withdrawing stimulus. So don’t expect it to be joining the RBNZ any time soon.

FX Update: It’s been a mixed night for the safe-haven USD and CHF, with the GBP and the oil-influenced NOK the big winners. The NZD has been middle of the pack, gaining modestly against the USD to around 0.698 and falling modestly against the AUD to around 0.945.

Local recap: Another snoozefest domestically with meek moves in local equities (NZX +0.09%) and local bond yields (NZ 10-year around 1.632%). The only data came in the form of Aussie business confidence figures for Q2, which hit a record high, but market reaction was a resounding ‘who cares’ given it’s since been superseded by the escalating COVID outbreaks in NSW, Vic and SA.

Day ahead: Nothing locally. Aussie PMI data is about the only thing on the calendar, but as we note above, the latest Aussie data is being rapidly overtaken by “events, dear boy, events.”

A smattering of US PMI data is the highlight overnight as we close out the week – unsurprisingly given the super-charged US recovery, readings are expected to remain strong (services: 64.5, manufacturing: 62.0). Elsewhere, UK retail sales (mkt: -0.1% mom), European PMIs and consumer confidence are all released – nothing too earth shattering for Kiwis to wake up to on Saturday morning. **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6978	0.1%	NZD/SEK	6.051	-0.1%	NZX WMP	3675.0	0.3%	Dow	34839	0.1%
NZD/AUD	0.9451	-0.3%	NZD/DKK	4.408	0.3%	Gold \$/o	1806.9	0.2%	S&P 500	4365	0.2%
NZD/EUR	0.5926	0.3%	NZD/THB	22.9	0.3%	WTI Oil \$/b	71.8	1.8%	NASDAQ	14680	0.3%
NZD/JPY	76.83	-0.3%	AUD/USD	0.7385	0.4%	Money Market (%)			FTSE	6968	-0.4%
NZD/GBP	0.5068	-0.3%	EUR/USD	1.178	-0.2%	90 Day BB	0.46	0.01	CAC-40	6482	0.3%
NZD/CAD	0.8763	0.1%	USD/JPY	110.1	-0.2%	OCR	0.25	0.00	DAX	15515	0.6%
NZD/CHF	0.6411	0.2%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	27724	1.8%
NZD/HKD	5.422	0.1%	NZ	1.65	-0.02	1yr	0.80	-0.01	Nikkei	27548	0.6%
NZD/SGD	0.9484	-0.2%	US	1.25	-0.04	2yr	1.03	-0.01	ASX200	7386	1.1%
NZD/CNH	4.517	0.3%	Aust	1.20	0.03	5yr	1.43	-0.03	NZX50	12721	0.1%

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