

Favourable signs boost sentiment

Markets traded in a generally favourable mindset overnight. Sentiment received a boost following PBOC cuts to lending rates and after the Biden administration noted it was considering its stance on the Trump tariffs to China. Also helping the mood were signals from global central banks that the time for emergency rate settings was done and dusted, and with the smooth political transition in Australia with Labor PM Albanese sworn in yesterday. The positive mood was dampened after President Biden committed to defending Taiwan from attacks from China (at odds with the long-standing US position over 'strategic ambiguity' for Taiwan). China expressed "firm opposition" to the Biden remarks.

The Annual Davos World Economic Forum shindig has just gotten underway after a two-year COVID-19 enforced absence. There have been a few headlines, with the IMF chief Georgieva and President Biden pushing back against growing concerns of a global/US recession. A blog by the IMF had earlier warned of global and economic fragmentation due to the Ukraine conflict. Costs could be enormous, with the IMF suggesting increased diversification of imports to build resilience (much easier said than done).

Overnight comments by central bankers suggested a growing consensus to remove policy stimulus and potentially take rates to restrictive levels to cool inflation. In a blog post, ECB President Lagarde warned that the Bank would start hiking rates in July, with the tone of her comments suggesting 25bp hikes in both July and September meetings, taking the -0.5% deposit rate to exit sub-zero territory by the end of September. Net purchases by the ECB's asset purchase programme would also likely end very early in Q3. The ECB's Villeroy cited growing consensus, with rate hikes in July and September likely a done deal. The FOMC's Bostic (2022 non-voter) backed 50bp Fed hikes in the next couple of meetings but was open to moving more aggressively if inflation failed to cool.

Comments by Biden on the China tariffs provided a boost to global stocks. The S&P500, Dow and Nasdaq were up 1% to 2%, with broad-based gains in the S&P500. European stocks rose upon their market open and have closed 1% to 2% higher. Equities were more mixed in the Asia-Pacific session, with Chinese stocks dampened by concerns over the Chinese economy amid growing COVID-19 cases in Beijing. **Improving risk sentiment provided a small boost to global yields** with US Treasury yields up across the curve and a mild steepening bias (10Y 2.86%). European 10-year bond yields nudged higher (UK 1.97%, Ger 1.01%). The USD was generally lower, with the USD index about 3% below 20-year highs in mid-May.

Crude oil prices have held onto (and sometimes extended) recent gains driven by concerns over tight product markets, with near-term contract prices of USD110 per barrel for WTI and around USD113 for Brent. IEA head honcho Birol called on major oil producers to act responsibly to help keep a lid on prices.

RBA Assistant Governor Kent believed the recent 25bp hike (to 0.35%) was more a case of the RBA "easing off the accelerator" (rather than putting on the brakes), with RBA model estimates of the neutral cash rate in a 2-3% range (in line with ASB and RBNZ estimates for NZ). Stagflation did not seem to be a pressing issue, but the RBA will keep to a wary eye on how households cope with higher borrowing costs. Unlike the RBNZ, Kent signalled the RBA will allow maturing bonds to roll off its balance sheet rather than to actively sell bonds from its portfolio. Our CBA colleagues expect a 25bp June RBA rate hike with the cash rate top peak at 1.60% in early 2023.

Local wrap: So quiet you could hear a pin drop. NZ yields edged higher on thin volumes, marking time ahead of Wednesday's 2pm RBNZ decision. The majority of members from the NZIER shadow board reportedly opted for a 50bp May OCR hike, consistent with the market consensus (including ourselves). The focus will be how far beyond circa 2% neutral levels the RBNZ would be prepared to push the OCR, and for how long. The NZD was generally higher, with the NZSX 50 eking out a 0.4% gain to lie 15% below October 2021 peaks.

FX Comment: The Greenback was generally on the outer, with the Chinese yuan extending its advance after President Biden vowed to discuss tariffs on exports from China with Treasury Secretary Yellen. European currencies were boosted by the Lagarde comments, although the NZD was one of the stronger G10 performers given improving risk sentiment and the expectation of RBNZ rate hikes. The smooth transition of Power following the Australian election helped support the AUD. The NZD traded in a 0.643 to 0.649 USD range overnight and had edged up to 91 Australian cents.

Day ahead: Locally, we have Q1 retail trade data (ASB +1.5% qoq, mkt: 0.3% qoq) that should confirm slowing momentum, with household spending facing a number of headwinds over 2022. Preliminary manufacturing (prior: 58.8) and services PMIs for Australia (56.1), the UK (mkt: manufacturing 55.0, services 57), Germany (mkt: 54 and 57.2 respectively) the Eurozone (mkt: 54.8 and 57.5 respectively), and the US (mkt: 57.8 and 55.3) is expected to

slow decent (but cooling) momentum. US new home sales and scheduled comments by the FOMC's George and Powell might pepper the wires as well those by the BOE's Tenreyro.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6461	1.0%	NZD/SEK	6.342	-0.5%	NZX WMP	4115.0	0.0%	Dow	31760	1.7%
NZD/AUD	0.9101	0.4%	NZD/DKK	4.498	-0.2%	Gold \$/o	1854.0	0.4%	S&P 500	3968	1.6%
NZD/EUR	0.6045	0.0%	NZD/THB	22.1	0.2%	WTI Oil \$/b	113.0	-0.2%	NASDAQ	11468	1.1%
NZD/JPY	82.59	0.2%	AUD/USD	0.7100	0.6%	Money Market (%)			FTSE	7513	1.7%
NZD/GBP	0.5136	0.2%	EUR/USD	1.069	1.2%	90 Day BB	2.29	0.06	CAC-40	6359	1.2%
NZD/CAD	0.8258	0.5%	USD/JPY	127.8	-0.1%	OCR	1.50	0.00	DAX	14175	1.4%
NZD/CHF	0.6242	-0.6%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	20470	-1.2%
NZD/HKD	5.072	1.0%	NZ	3.53	0.01	1yr	3.21	0.07	Nikkei	27002	1.0%
NZD/SGD	0.8875	0.5%	US	2.86	0.08	2yr	3.58	0.06	ASX200	7149	0.0%
NZD/CNH	4.305	-0.2%	Aust	3.33	0.01	5yr	3.64	0.03	NZX50	11316	0.0%

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