Daily Alert
New Zealand Edition

25 March 2021

Return to normality

Markets traded in a sideways fashion overnight, with few catalysts to see a marked change in tone. COVID risks remain, with the tightening of restrictions and extended lockdowns in much of Europe a reminder that the global economy is not out of the woods. The announcement this morning that German Chancellor Merkel has reversed plans for an Easter lockdown bought some respite.

The dynamic duo of Powell and Yellen appeared at the Senate banking committee, but largely rehashed similar themes of the recovery having a long way to go despite positive signs of late. Powell appeared largely unconcerned by the recent rise in US Treasury yields ("an orderly process") that reflected the brighter outlook. Market reaction was limited.

There were modest moves in the major US equity indices (S&P500 +0.1%, Dow +0.5%, Nasdaq -1.1%) with financial, industrials and energy stocks back in favour with investors at the expense of technology stocks. Prices for Bitcoin moved above USD56,000 after Elon Musk tweeted that the cryptocurrency could be used to purchase Teslas. European equities recovered from a soft opening to be little changed (FTSE 100 +0.2%, DAX -0.3%, EuroStoxx 50 +0.1%), with energy stocks up and auto stocks down. The suspension of the BioNTech vaccinations in Hong Kong over a packaging defect resulted in circa 2% falls in the Nikkei, Hang Seng, with mainland Chinese indices also lower. The lower yield environment was a positive for Australian (ASX 200 +0.5%) but not NZ (NZSX 50 -0.2%) equities.

The retracement in global yields continued as markets distanced themselves from the reflation thematic of higher yields and steeper curves. US Treasury yields were a fraction lower overnight (10Y 1.61%), with the solid demand at a 5-year Treasury auction partly spurred from offshore investors. Investors have reportedly closed out short positions on 10-year US Treasuries, indicating the view on yields is not uniformly up. European 10-year government bond yields were also a fraction lower.

NZ yields continued their post housing announcement slide yesterday, with outsized moves for longer-term maturities. NZ 10-year bond yields were down a sizeable 17bps (1.51%) with NZ 10-year swap yields (1.72%) also at their lowest level in a month. Indicative of the change in market tone, the RBNZ was only able to secure less than half of the 2025 bonds it had offered to purchase, the first time since October 2020 it has failed to meet its bond buying quota. RBNZ rate hike expectations were pared back further, with only 20bps of hikes expected by the end of 2022. Australian yields were down by a smaller degree, reacting to the earlier drop in global yields, despite positive assessment of the economy's performance by RBA Board member Harper.

Commodity prices made up for lost ground, retracing falls earlier in the week. Disruptions to shipping through the Suez Canal and low US crude inventories saw near-term contract prices for WTI and Brent firm by around USD3 per barrel (to around USD61 and USD64, respectively). Gold prices rose.

Manufacturing PMIs in Australia (57 vs 56.9 prior), the US (59 vs. 58.6), the UK (57.9 vs. 55) and Eurozone (62.4 vs. 57.9) showed signs of improvement as did Services PMIs with elevated readings for the US (60.1) and Australia (56.2) and much improved readings for the UK (56.8) and the Eurozone (48.8). US durable goods (-1.1% mom) and core durable goods (-1.0) both dipped in February. UK inflation readings were benign (headline 0.4% yoy, core 0.9%) and well below the BOE's 2% target. There was little market reaction as the Feb NZ trade data showed the expected NZ$181m surplus, narrowing the annual balance from record highs to $2.4b.

FX Update: the USD index gained overnight with the NZD and AUD losing ground against other G10 currency pairs. The NZD traded in a 0.6950 to 0.7000 USD range overnight and it has hovered below 92 Australian cents. NZD direction will hinge on the direction of global yields, commodity prices and risk appetite.

Day ahead: Little of note on the local calendar ahead of the $450m tender of the 2024, 2027 and 2041 NZ Government bond (2.05pm) which should do well given the sizeable fall in yields of late. This is preceded by the debt auction in Australia (AUD800m of 2024) which should attract solid demand. Consumer confidence data are out from the Eurozone. Initial jobless claims (mkt: 730k, prior 770k) and the final reading of US Q$ GDP (mkt: 4.1 qoq annualised), with speeches by a number of Fed policymakers and BoE Governor Bailey over the next 24 hours. **Author:** mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6978	-0.4%	NZD/SEK	6.002	-0.2%	NZX WMP	3840.0	-1.5%	Dow	32601	0.5%
NZD/AUD	0.9180	0.1%	NZD/DKK	4.388	-0.1%	Gold $/o	1734.2	0.4%	S&P 500	3916	0.2%
NZD/EUR	0.5901	-0.2%	NZD/THB	21.6	-1.4%	WTI Oil $/b	60.9	5.5%	NASDAQ	13086	-1.2%
NZD/JPY	75.87	-0.2%	AUD/USD	0.7601	-0.5%	**Money Market (%)**			FTSE	6713	0.2%
NZD/GBP	0.5097	0.1%	EUR/USD	1.183	-0.2%	90 Day BB	0.34	0.01	CAC-40	5947	0.0%
NZD/CAD	0.8766	-2.9%	USD/JPY	108.7	0.1%	OCR	0.25	0.00	DAX	14610	-0.4%
NZD/CHF	0.6525	-0.2%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	27918	-2.0%
NZD/HKD	5.421	-3.8%	NZ	1.52	-0.17	1yr	0.34	0.00	Nikkei	28406	-2.0%
NZD/SGD	0.9388	-0.4%	US	1.62	0.00	2yr	0.39	-0.01	ASX200	6779	0.5%
NZD/CNH	4.553	-0.1%	Aust	1.66	-0.08	5yr	0.94	-0.08	NZX50	12359	-0.3%

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