

NZ retail spending romps home in Q1, lifting our growth forecasts

We've kicked off the week with a stonking bit of good news in the form of yesterday's retail trade data. Retail volumes lifted 2.5%, far more resilient than the circa 1.5% fall we'd been pegging and the 1.8% decline the market had been expecting. Pleasingly, the result was broad-based across regions and store-types. It's possible we see a bit of a pullback in Q2 (particularly with supply disruptions lurking in the shadows), but we remain positive on the outlook for the year ahead. The once-in-a-generation lift in income support signalled by the government should help keep the party going too.

The bigger-than-expected lift in retail sales tips our Q1 GDP forecast into positive territory. We'd been expecting flattish GDP growth of 0% over the quarter, running the risk it could tip into negative territory and result in a technical recession. Off the back of yesterday's lift alone, our Q1 pick moves to +0.3% qoq.

Beyond that, we had another quiet start to the week yesterday. There was no other data of any note (neither here nor in Aus). Moves in both NZ equities (virtually unchanged at -0.09%) and bond yields (lower with a wee bit of flattening) were modest.

Overnight, the tone has very much been 'risk-on,' with decent gains for equities and a softer USD the order of the day. Bitcoin is also surging after its shocker performance last week. In the absence of any major data or economic developments it's hard to identify a catalyst, though analysts were citing an ebbing in inflation fears as a factor.

To that end, we've had a triumvirate of Fed speakers out continuing to press the message they reckon any uptick in inflation will be temporary, with no taper talk imminent. A few choice morsels: "I am not seeing [inflation] is going to be enduring" (Atlanta's Bostic) "we are going to see higher inflation – I think it's mostly temporary" (St Louis' Bullard) and "longer-term inflation expectations... have been extremely well anchored" (Governor Brainard). **Treasury yields were lower overnight, and the curve under flattening pressure.**

As you'd expect, the move in risk sentiment saw equities make broad gains, with tech shares outperforming. At the time of writing, the S&P 500 is up 1.2%, the Dow is up 0.7%, while the tech-heavy Nasdaq has enjoyed a larger 1.6% bounce. A few favourable tech headlines probably added to the mood, including the news Amazon is close to buying the movie studio MGM. Major equity indices are up across the board in Europe too.

In other news, Chinese officials have signalled their displeasure at surging commodity prices. Officials are putting recent price surges down to 'speculators' and said they would show 'zero tolerance' towards hoarding or market manipulation. Unsurprisingly the announcement has triggered a mixed reception in commodity markets, with some metal prices easing a little. Watch this space.

FX update: Given the positive mood, USD weakness was unsurprisingly the big story in currency markets overnight, down against the rest of the G10. Despite the Chinese announcement, commodity currencies were decent performers with NOK, AUD and NZD all gaining (CAD mixed). As of the time of writing, NZD/USD has lifted to just shy of 0.722 while NZD/AUD is trading around 0.931.

Day ahead: Another day with no local data out and only consumer confidence figures in Aussie data. It's actually similarly quiet overnight too, though there are a couple of bits and pieces of US property data out. Really though, the focus continues to be on Wednesday's MPS by the RBNZ – a reminder you can read our preview [here](#). **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7218	0.6%	NZD/SEK	5.998	0.4%	NZX WMP	4190.0	-0.2%	Dow	34394	0.5%
NZD/AUD	0.9306	0.3%	NZD/DKK	4.393	0.3%	Gold \$/o	1883.5	0.1%	S&P 500	4204	1.1%
NZD/EUR	0.5908	0.3%	NZD/THB	22.6	0.4%	WTI Oil \$/b	66.2	3.9%	NASDAQ	13661	1.4%
NZD/JPY	78.51	0.6%	AUD/USD	0.7755	0.3%	Money Market (%)			FTSE	7052	0.5%
NZD/GBP	0.5098	0.6%	EUR/USD	1.222	0.3%	90 Day BB	0.32	0.00	CAC-40	6408	0.3%
NZD/CAD	0.8693	0.4%	USD/JPY	108.8	-0.1%	OCR	0.25	0.00	DAX	15438	0.4%
NZD/CHF	0.6471	0.4%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28412	-0.2%
NZD/HKD	5.605	0.6%	NZ	1.81	-0.01	1yr	0.37	0.01	Nikkei	28365	0.2%
NZD/SGD	0.9584	0.3%	US	1.61	-0.02	2yr	0.53	0.00	ASX200	7046	0.2%
NZD/CNH	4.627	0.3%	Aust	1.71	-0.03	5yr	1.19	0.00	NZX50	12449	-0.1%

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