

Normal service resuming

Global markets were calm overnight, with a mild 'risk-on' vibe tending to shine through. Stocks have made light gains (the S&P500 rose 0.6% to a fresh record high), measures of risk aversion like the VIX index continued to ease, commodity prices are up, and the NZD/USD climbed back above 0.7050. Stepping back from the daily chop, markets have largely recovered their poise following the Fed's hawkish shock of last week.

Underpinning positive risk sentiment was another slug of positive economic data, and the news US President Biden has cobbled together a bi-partisan deal for a US\$1t infrastructure package. The agreed amount is well short of the US\$2.3t initially touted but is nevertheless another positive for the already-booming US economy.

US durable goods figures for May and the latest jobless claims numbers printed slightly south of expectations but, in the case of the latter, are still falling on trend and point to a labour market that continues to heal. Across the pond, the closely-watched German IFO survey showed business expectations soaring to the highest level since 2017 (above expectations).

The Bank of England didn't "do a Fed". In contrast, the BoE's more dovish message saw the GBP underperform and UK interest rates fall. The 10-year Gilt yield is down around 6bps at 0.74%. The BoE did revise up its growth and inflation forecasts but stuck to the 'inflation is transitory' line, suggesting the Bank won't respond to a likely surge in UK inflation to above 3% later this year. The BoE stated the UK would "experience a temporary period of strong" growth and above-target inflation "after which growth and inflation will fall back". GBP/USD fell 0.4% to 1.3920, lifting NZD/GBP up to 0.5070.

'Twas a quiet day in local markets yesterday. Most folk simply bathed in the aftermath of what was likely NZ's greatest ever sporting accomplishment yesterday morning. The NZ swap curve has been largely consolidating in the higher and flatter position it reached following the June RBNZ announcement. Two-year swap yields are a smidge below their recent 0.73% highs, while 10-year yields have been flat for some time around 1.9%.

We have no major beef with market pricing for RBNZ rate hikes which has the first hike fully factored in by April/May 2022 (our formal view is May), and a small (30%) chance of a hike by as early as November this year. This being the case we could see the consolidation in wholesale rates continue ahead of the next RBNZ meeting on 14 July and CPI inflation data on 16th July.

FX comment: The NZD/USD has continued to regather following the Fed-inspired dip below 0.7000. As with the March sub-0.7000 experience, positive medium-term fundamentals are ensuring these dips don't hang around for long. The fact that NZD/AUD continues to largely flat-line either side of 0.9300 confirms that USD sentiment is the driving force for NZD/USD at the moment. And with markets now adjusting to the Fed's less dovish shift last week, we wouldn't be surprised to see the NZD/USD recovery continue. Near-term support/resistance is eyed around 0.7000/0.7120 respectively.

Day ahead: The kiwi trade balance (10:45am) will be ignored by all but the anoraks, but should once again highlight the cracking performance of the external sector through the COVID period. The upswing in the annual trade balance has likely peaked though. Tonight, the US "core Private Consumption Expenditure deflator" will provide fodder for an inflation-obsessed market, albeit it lags the "official" US CPI measure. It's expected to lift to 3.4% yoy in May (core) from 3.1% in April, with the headline (non-core) measure at 3.9%.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7065	0.3%	NZD/SEK	5.980	0.0%	NZX WMP	3835.0	0.1%	Dow	34197	1.0%
NZD/AUD	0.9312	0.1%	NZD/DKK	4.403	0.2%	Gold \$/o	1774.0	-0.3%	S&P 500	4267	0.6%
NZD/EUR	0.5920	0.3%	NZD/THB	22.5	0.5%	WTI Oil \$/b	73.5	0.2%	NASDAQ	14370	0.7%
NZD/JPY	78.31	0.2%	AUD/USD	0.7587	0.2%	Money Market (%)			FTSE	7110	0.5%
NZD/GBP	0.5070	0.5%	EUR/USD	1.193	0.1%	90 Day BB	0.33	-0.01	CAC-40	6631	1.2%
NZD/CAD	0.8705	0.4%	USD/JPY	110.9	-0.1%	OCR	0.25	0.00	DAX	15589	0.9%
NZD/CHF	0.6486	0.3%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28882	0.2%
NZD/HKD	5.484	0.3%	NZ	1.79	-0.01	1yr	0.46	0.01	Nikkei	28875	0.0%
NZD/SGD	0.9485	0.1%	US	1.49	0.00	2yr	0.72	0.00	ASX200	7275	-0.3%
NZD/CNH	4.571	0.2%	Aust	1.57	0.00	5yr	1.36	-0.01	NZX50	12587	0.0%

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