

US shares drift near record highs ahead of earnings and FOMC.

The major economic data releases were strong at the end of last week. The US IHS Markit manufacturing index rose from 59.1 to 60.6 in April, the highest level since May 2007 (survey: 61). And the services index rose from 60.4 to 63.1 in April, the highest reading since October 2009 (survey: 61.5). New US home sales surged 20.7% in March to an annual rate of 1.021 million units, the highest since August 2006 (survey: 885,000). The IHS Markit's euro zone composite purchasing managers' index rose from 53.2 to a 9 month high of 53.7 in April (survey: 52.9).

US sharemarkets advanced on Friday after the release of strong economic data. Over the full week, the Dow Jones index fell 0.5%, the S&P 500 index lost 0.1% and the Nasdaq index dipped 0.3%. Investor focus is on reporting season, US markets have been flat overnight. Amazon, Alphabet, Facebook, and Google all deliver their latest results this week.

The NZ sharemarket was down 0.3% on Friday and remains trading circa 7% off the highs of early 2021. The pan European STOXX 600 index was down 0.8% last week. European sharemarkets were mixed on Friday and overnight.

US treasury yields were little changed last week, with US 2-year yields ending the week flat at 0.16%, and US 10-year yields down 1 point to 1.56%. **NZ 10-year yields** start the week at 1.58%, more than 20bps below the level at the start of the month.

New Zealand's March milk production lifted 9.8% on the same month a year ago on a tonnage basis. Production rose 8.7% on a milk solids basis, according to figures from DCANZ. The data showed season-to-date milk production was up 1.8% and 1.6% on a milk solids basis. This was much stronger growth than expected and may help the NZ economy avoid technical recession.

FX comment: The USD extended losses in the Asia session yesterday and could continue to trend lower in line with the gathering momentum in the world economy. The NZD starts the week trading near 0.7240 against the USD, and 0.9280 against the AUD. NZD may be supported by a weakening USD over the week ahead. Second tier New Zealand economic data released this week are unlikely to be driver of NZD this week, so USD direction is expected to be key.

Day ahead: It's a quiet start to the week, with no local data scheduled. The Bank of Japan meets today, and no changes are expected after tweaks were made at the previous meeting.

Week ahead local: We expect NZ recorded a \$NZ304mn monthly trade deficit in March. The result means NZ's annual trade surplus will continue narrowing to \$NZ1.3bn after reaching record highs late last year. ANZ's business and consumer confidence surveys are released on Thursday and Friday. **Week ahead offshore:** In Australia on Wednesday, we expect headline inflation to rise by 1.1% over Q1, and the RBA's preferred trimmed mean measure to rise by a more muted 0.6%. The focus in Australia is turning to next Tuesday's May RBA meeting. In the US, we expect the FOMC to leave its policy settings unchanged on Wednesday (Thursday morning NZT). The US economy is improving but there is a lot of slack in the labour market. We expect Chair Powell to reiterate that even early steps to a policy exit are not being considered. The first estimate of Q1 21 GDP is released later Thursday. We estimate the US economy expanded by at least 5.5%saar in Q1 21. The US government's fiscal stimulus package from December and March encouraged a boom in consumer spending. Business investment is also picking up. Inflation data is also released on Friday. We estimate the core PCE deflator accelerated to 1.6%/yr. However, much of the acceleration reflects weakness one year ago. In the Eurozone Q1 21 GDP data is due on Friday. Unlike the US, it is expected the Eurozone economy contracted in the first quarter of 2021. The ECB expects a fall of 0.4% due to measures to control outbreaks of COVID-19. Vaccination rates are now picking up in Europe.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7238	0.6%	NZD/SEK	6.063	0.5%	NZX WMP	4115.0	-0.1%	Dow	33992	-0.2%
NZD/AUD	0.9277	-0.1%	NZD/DKK	4.452	0.7%	Gold \$/o	1780.7	0.2%	S&P 500	4194	0.3%
NZD/EUR	0.5987	0.6%	NZD/THB	22.7	0.7%	WTI Oil \$/b	61.9	-0.4%	NASDAQ	14133	0.8%
NZD/JPY	78.25	0.8%	AUD/USD	0.7802	0.7%	Money Market (%)			FTSE	6963	0.4%
NZD/GBP	0.5206	0.4%	EUR/USD	1.209	0.0%	90 Day BB	0.35	0.00	CAC-40	6276	0.3%
NZD/CAD	0.8974	0.0%	USD/JPY	108.1	0.1%	OCR	0.25	0.00	DAX	15296	0.1%
NZD/CHF	0.6617	0.6%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	28953	-0.4%
NZD/HKD	5.617	NA	NZ	1.60	0.00	1yr	0.36	0.00	Nikkei	29126	0.4%
NZD/SGD	0.9592	0.5%	US	1.57	0.01	2yr	0.47	0.00	ASX200	7046	-0.2%
NZD/CNH	4.685	0.7%	Aust	1.76	0.02	5yr	1.04	0.01	NZX50	12651	0.6%

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