Daily Alert
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ASB

Australia no longer a special case as inflation soars

- The AUD and Australian yields spiked after Q1 headline Australian CPI inflation topped market expectations (2.1% qoq versus mkt: 1.7% qoq) with the 5.1% annual print the highest in more than 20 years. The ABS cited the "broad-based nature of price rises" and worryingly for the RBA the 1.4% quarterly lift in prices from the trimmed mean was the highest in 20 years, with the 3.7% annual print the highest since 2009. **Despite the pending election, high inflation suggests the 0.1% RBA cash rate needs to move up pronto**, with markets fully pricing in 15bp of RBA hikes next week and the cash rate hitting 2.5% by the end of the year. Our CBA colleagues acknowledge the clear risk of a May hike but expect the RBA to wait till June.
- **Market sentiment has remained cautious overnight** as mixed corporate earnings, the economic toll posed by COVID-19 outbreaks and lockdowns in China (despite tentative signs of steadying) and the prospect of aggressive Fed hikes weighed on sentiment. The Ukraine conflict continued to simmer away, with US and Russian officials trading barbs. The euro traded at around 5-year lows against the USD after Russia cut off gas supplies to Poland and Bulgaria until they are paid in rubles. Warnings by the World Bank that the Ukraine conflict has triggered a return to the weak growth and high inflation of the 1970s and that food and energy prices will remain elevated for the next 3 years didn't help either.
- **Global stocks have risen as bargain hunters moved in to hoover up cheaper stocks.** Better than expected results from Microsoft contrasted with weak results from Boeing, and Alphabet Inc. Markets were twitchy with the VIX index hovering just above 30. European stocks steadied after three days of declines. Asian stocks earlier dropped to 21-month lows with technology firms underperforming despite Chinese President Xi's pledging to boost Chinese infrastructure investment.
- **US Treasury yields continued to bounce off earlier lows** (2Y 2.59%, 10Y 2.82%) as concerns over high inflation and the increasing supply of government debt returned. With the May FOMC decision a week away (a 50bp hike next week is fully priced in), Lael Brainard was confirmed by the Senate (52-43) to be the Vice Chair of the Federal Reserve Board of Governors, with confirmation of Chair Powell and other nominees pending. There were modest moves in European yields (UK 10Y 1.81%, Ger 10Y 0.80%). The Australian yield curve flattened with short-term yields up (2Y 2.35%) and long-term yields down (10Y 3.05%).
- **Commodity energy prices were volatile** with jumps in volumes traded and lifts in refined energy prices despite little movement in near-term contract prices for WTI and Brent crude (both around USD102 per barrel). Prices for European natural gas initially soared 20% before paring back gains after Russia suspended gas supplies to Poland and Bulgaria until they pay in rubles. EU leaders have accused Russia over 'blackmail". Europe depends on Russia for more than a third of its gas needs.
- **Local wrap:** a session of two halves with the morning seeing a modest pullback in NZ government bond yields (still up 120-130bps since the start of the year) following earlier falls in global yields, with a tiny retracement in NZ swap yields (up 120-150bps). The strong Australian CPI print in the afternoon turned things around, with NZ swap yields hitting 7-year highs (2Y 3.81%, 10Y 3.90%), bond yields rising (10Y 3.64%) and around 10bps added to RBNZ market pricing over 2022, with the terminal OCR approaching 4.5%. The NZD gained against most majors but fell against the AUD.
- **FX Update:** broad-based AUD strength last night softened with the Aussie easing against the CAD and USD which were at the top of the G10 currency ladder. The AUD is currently 0.7120 USD after peaking as high as 0.7190 yesterday post-CPI. The NZD dropped 30 pips after the strong Australian Q1 CPI print (0.916) but has made some ground overnight (currently 0.918 AUD). The NZD has eased against the USD (to 0.6540 USD), trading in a 0.6530-0.6590 overnight range. The euro traded at around 5-year lows against the USD (1.06 USD), with the yen, Swiss franc and NOK down against other majors.
- **Day ahead:** at 9am the RBNZ will release the speech by Deputy Governor Hawkesby discussing macroprudential tools and how the Bank's thinking has evolved since loan to value restrictions were implemented in 2013. NZ merchandise trade data for March could show the highest annual deficit on record (Feb was $8.4bn). The April ANZ Business Outlook is expected to show continued recovery from February lows as Omicron headwinds subside, but for pricing metrics to remain elevated. The NZDM will be tendering $100m of the 2025 and 2032 lines at just after 2pm. Australian export prices are expected to outstrip import prices in Q1, lifting the terms of trade. Annual CPI inflation looks to have peaked in Germany (mkt: 7.2% yoy, 7.3% yoy prior) pointing to a stabilisation in elevated inflation in the Eurozone (currently 7.5% yoy). Q1 US GDP growth momentum is expected to slow (mkt: 1.1% qoq annualised), but jobless claim data should confirm an exceptionally tight US labour market.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6541	-0.4%	NZD/SEK	6.441	-0.4%	NZX WMP	4000.0	-0.5%	Dow	33422	0.5%
NZD/AUD	0.9187	-0.3%	NZD/DKK	4.611	0.4%	Gold $/o	1887.9	-0.9%	S&P 500	4192	0.5%
NZD/EUR	0.6196	0.3%	NZD/THB	22.5	-0.2%	WTI Oil $/b	102.0	0.3%	NASDAQ	12520	0.2%
NZD/JPY	83.94	-0.1%	AUD/USD	0.7121	-0.1%	**Money Market (%)**			FTSE	7426	0.5%
NZD/GBP	0.5216	-0.1%	EUR/USD	1.056	-0.8%	90 Day BB	1.97	0.00	CAC-40	6445	0.5%
NZD/CAD	0.8392	-0.3%	USD/JPY	128.4	0.8%	OCR	1.50	0.00	DAX	13794	0.3%
NZD/CHF	0.6338	0.3%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	19946	0.1%
NZD/HKD	5.131	-0.4%	NZ	3.62	0.02	1yr	3.31	0.05	Nikkei	26387	-1.2%
NZD/SGD	0.9031	-0.3%	US	2.81	0.09	2yr	3.78	0.06	ASX200	7261	-0.8%
NZD/CNH	4.309	0.4%	Aust	3.06	-0.05	5yr	3.89	0.06	NZX50	11726	0.0%

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