Daily Alert
New Zealand Edition

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Fed keeps the dovish line

At its latest meeting the Fed upgraded its economic assessment, but Jerome Powell stuck to a dovish line and refused to be drawn on the timeframe for tightening policy settings. This was a closely watched event after developments in the world of central banking last week. Last Wednesday, the Bank of Canada's latest statement surprised observers by bringing forward its timetable for tightening policy and emphasising the strength of its forecast revisions. Few expected the Fed to be as bold, but markets were watching Fed Chair Powell's comments for any hint of a shift in tone – in yesterday's Daily Alert we noted they were taking a page out of Lou Reed's book and 'waiting on the man.' As expected, the FOMC broadly stuck to its dovish tone and declined to 'take a walk on the wild side'.

The FOMC acknowledged employment and activity measures have strengthened but kept the caveat that "risks to the economic outlook remain." Some analysts interpreted the latter comment as a bit of a shift in tone given the previous language referred not just to 'risks' but to 'considerable risks.' Still, speaking after the meeting Powell was keen to emphasise that the recovery was "…uneven and far from complete" and "a long way from our goals," once again stating it was too early to discuss scaling back asset purchases.

The statement saw an initial shift higher in US Treasury yields, before they pared back as markets mulled over Powell's post-meeting comments. Yields were lower across the curve, with the largest moves for shorter-tenor bonds (10Y: 1.615%). The moves contrasted with European yields, which were broadly higher overnight (albeit still far below their US counterparts).

Moves in equities overnight have been mixed, but modest. After hitting record highs earlier in the week, sharemarkets are still nudging those levels. There was a slight upward move in the S&P 500 (+0.06), a shift down in the Dow (-0.27%), and little change in the Nasdaq at the time of writing (+0.01%).

The other key event of the last 24 hours was yesterday's Aussie CPI result for the March quarter, which was softer than anticipated. Headline inflation lifted 0.6% qoq (versus markets expectations of a 0.9% lift), and 1.1% yoy (mkt: 1.4%). Inflation measures around the world have been closely watched of late as markets speculate about the timeline for monetary tightening. There is plenty of debate amongst economists about how marked and how sustained pricing pressures are going to prove and the softer-than-expected result points to the difficulties in forecasting. Our CBA friends reckon ongoing government support payments may have kept a lid on price gains this quarter, and still expect inflation to pick up over 2021. The result saw a little bit of market reaction, with Aussie yields slightly lower.

Elsewhere yesterday, it was a quite day for the local market. The tone tilted towards the positive, with the NZX enjoying relatively modest gains over the day (+0.2%), and longer dated NZ bond yields edging up (10Y: 1.602%) with a bit of curve-steepening evident. No major local data was incoming.

FX comment: The weaker than expected CPI result yesterday saw the Aussie move lower against much of the G10, but its regained ground overnight. Elsewhere, the NZD was one of the stronger performers overnight, making gains against most of its peers. At the time of writing, the NZD/AUD is around 0.932 and the NZD/USD has lifted to around 0.726.

Day ahead: With Aussie CPI and FOMC out of the way, the biggest release left for the week is the Q1 US GDP number, which is out just after midnight overnight. With most US data over the past couple of months pointing to a pick-up in economic activity, expectations point to a pick-up in growth to +6.9% qoq annualised. Before that, we have a couple of local releases today. There will be few surprises in NZ trade balance data at 10.45am (ASB: $304m monthly deficit), but we'll be watching the ANZ Business Outlook data at 1pm for signs of a pickup in cost and pricing measures. We've also got Joe Biden delivering his first address to Congress at around the same time – it'll be worth a watch for any surprise policy pledges. **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7262	0.7%	NZD/SEK	6.060	0.4%	NZX WMP	4115.0	0.0%	Dow	33860	-0.3%
NZD/AUD	0.9322	0.4%	NZD/DKK	4.454	0.5%	Gold $/o	1780.5	0.2%	S&P 500	4189	0.0%
NZD/EUR	0.5990	0.5%	NZD/THB	22.8	0.7%	WTI Oil $/b	63.9	1.5%	NASDAQ	14080	0.0%
NZD/JPY	78.90	0.7%	AUD/USD	0.7790	0.3%	**Money Market (%)**			FTSE	6964	0.3%
NZD/GBP	0.5208	0.5%	EUR/USD	1.212	0.3%	90 Day BB	0.35	0.01	CAC-40	6307	0.5%
NZD/CAD	0.8944	0.0%	USD/JPY	108.7	-0.1%	OCR	0.25	0.00	DAX	15292	0.3%
NZD/CHF	0.6603	0.2%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	29071	0.4%
NZD/HKD	5.637	0.7%	NZ	1.62	0.02	1yr	0.36	-0.01	Nikkei	29054	0.2%
NZD/SGD	0.9623	0.6%	US	1.61	-0.01	2yr	0.47	0.00	ASX200	7065	0.4%
NZD/CNH	4.703	0.5%	Aust	1.74	-0.01	5yr	1.05	0.00	NZX50	12646	0.2%

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