Stocks and Treasury yields on the up, USD down post FOMC

Markets have continued to digest the US Federal Open Market Committee's message, with action overnight showing mixed movements by market. **Gong by post-FOMC market reaction it seemed the nuances in the Fed's assessment provided something for everyone.** Economic bears were reassured by the message that there are still plenty of risks out there, that the removal of policy stimulus will be gradual, heavily contingent on events and that the Fed is watching closely and is not on autopilot. For the economic bulls, there was enough to suggest the Fed believed the US economy was making progress and that policy support will be lessened. Our CBA colleagues have retained the view that the FOMC will announce a tapering of asset purchases in September, and start tapering in October, but note the onus will be on the labour market recovery continuing.

Treasury yields were higher overnight, with a curve steepening bias (10Y 1.27%, + 3bps). The modest immediate post - FOMC market rally (i.e. fall) in yields petered out, with enough in the Fed statement to add comfort that the US upswing was on track. Weaker data overnight temporarily dampened US yields. Eurozone yields were lower despite German CPI inflation hitting a 13-year high (+3.8% yoy), with ECB policymaker De Guindos viewing the spike in inflation to be temporary, with a low inflation outlook for 2022. NZ yields were fractionally lower yesterday. Yesterday's $500m NZDM tender was well supported with yields 1.5-2bps below mid-market levels. Australian yields were little changed.

Equity indices were up. Weaker than expected US data provided a lift to US stocks, providing some comfort to equity investors that Fed rate hikes were a way off. Sector gains were broad-based across the S&P500. Strong corporate earnings and equity buybacks pushed the Stoxx 600 in Europe to record highs. Energy and financial stocks were the strongest performers. Chinese stocks rallied after the PBoC provided additional liquidity and authorities acted to soothe fears over government crackdown on the private education industry.

The virus outbreak remains in focus in Australia. Victoria and South Australia have reduced the severity of their restrictions. But surging COVID-19 cases have seen the lockdown extended for another four weeks in Greater Sydney and tightened in certain parts of Sydney.

USD weakness helped push commodity prices higher. Declining US stockpiles pushed oil prices higher, with close to 2% gains in near-term contract prices for WTI and Brent. Gold prices rose.

US data were softer than expected. Despite stronger consumer spending and the continued strengthening in business investment, a negative net export contribution and declining inventories saw US Q2 GDP advance at a 6.5% annualised pace (mkt: 8.4% qoq, Q1: 6.3% qoq). Still, the level of US GDP in Q2 moved above pre-pandemic levels. US initial jobless claims only partly reversed their previous climb, falling to 400k (mkt: 385k, prior: 424k). Continuing claims were steady at 3269k (mkt: 3183k).

NZ July ANZ business sentiment eased back from June levels but with own activity expectations (+26.3), employment intentions (a 4-year high +21.3) and investment intentions (+17.4) pointing to solid momentum ahead. Pricing metrics remained worrisome with pricing intentions (+61.3) and expected costs (+88.2) either at (or close to) record highs. **From a regret's analysis point of view this survey further encourages the RBNZ to move early but carefully on lifting OCR settings from emergency levels. We expect OCR hikes from August.**

FX Update: USD weakness has continued through the overnight session, with the greenback the weakest of the G10 currencies traded. The NZD, by contrast, was the strongest G10 performer and broke above 70 US cents this morning to be currently lying towards the upper part of its 0.695-0.7020 USD overnight range. The NZD edged higher against the AUD and is just shy of 95 Australian cents. Recovering global growth, a solid commodity price backdrop, resilient domestic demand and widening interest rate differentials in NZ's favour should continue to support the NZD.

Day ahead: ANZ NZ consumer sentiment (prior: 114.1) at 10am, followed by June building consents which should confirm annual residential consent issuance around recent highs but with building costs remaining on an upward trajectory. Australian private sector credit and Q2 producer prices are out. July PMIs for China, Eurozone July CPI (mkt: 2% yoy) and Q2 GDP (mkt: 1.5% qoq) and US June Private Consumption Expenditure reports (mkt: core PCE deflator 3.7% yoy) are out over the next day or two. Have a good weekend everybody. **Author**: mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7011	0.7%	NZD/SEK	5.995	0.2%	NZX WMP	3790.0	0.4%	Dow	35107	0.5%
NZD/AUD	0.9478	0.4%	NZD/DKK	4.387	0.4%	Gold $/o	1829.0	1.2%	S&P 500	4420	0.5%
NZD/EUR	0.5898	0.5%	NZD/THB	23.0	0.7%	WTI Oil $/b	73.6	1.7%	NASDAQ	14791	0.2%
NZD/JPY	76.74	0.3%	AUD/USD	0.7397	0.3%	**Money Market (%)**			FTSE	7078	0.9%
NZD/GBP	0.5021	0.3%	EUR/USD	1.189	0.3%	90 Day BB	0.47	0.00	CAC-40	6634	0.4%
NZD/CAD	0.8729	0.1%	USD/JPY	109.5	-0.4%	OCR	0.25	0.00	DAX	15640	0.5%
NZD/CHF	0.6352	0.2%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	26315	3.3%
NZD/HKD	5.448	0.6%	NZ	1.61	-0.02	1yr	0.80	0.00	Nikkei	27782	0.7%
NZD/SGD	0.9483	0.4%	US	1.26	0.03	2yr	1.04	0.00	ASX200	7417	0.5%
NZD/CNH	4.528	0.4%	Aust	1.16	0.00	5yr	1.44	0.00	NZX50	12729	1.1%

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657	
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661	
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915	
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5720	
Publication and Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660	

https://reports.asb.co.nz/index.html

@ASBMarkets

ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland