ECB signals rate cuts in June, other central banks not so keen

As was widely expected the ECB held its key policy interest rates (deposit rate 4.0%), **but also signalled growing confidence that inflation (currently 2.4%) was on track to fall below 2%, providing a clear signal that it will cut rates in its next policy announcement in early June.** ECB President Lagarde noted a few members were keen to lower rates at the current meeting, but that the majority wanted to wait for more data and forecasts "to determine whether all of that confirms inflation returns to target in a sustained manner". Services and core inflation (currently 2.9%), and wage growth are moderating more gradually, with key wage negotiations available at the June policy decision, and with ECB President Lagarde expecting to see further signs of moderation. **Markets are about 90% priced in for a June ECB cut, and 70bps of cuts by year end. Signals of an imminent ECB cut triggered a sharp drop in the euro after the decision.**

Comments from central bankers in the US and UK were more circumspect. FOMC Vice Chair Williams noted that while the Fed had made "tremendous progress" in lowering inflation and achieving better balance, there is still some way to go. US monetary policy was well placed and the labour market strong, with "no clear need to adjust policy in the very near term", with the Fed content to observe the data. Williams reiterated that while it will be slowing the pace of asset sales in its balance sheet, it will not be halting them altogether given the extremely high level of reserves. The FOMC's Collins (2025 voter) conceded that it may take more time than previously thought to gain confidence in easing policy, with recent data easing concerns over an "imminent need" for rate cuts. BOE policymaker Green added to the chorus warning against imminent rate cuts, warning that the risks of inflation rates remaining up was higher than in the US, and that rate cuts in the UK "should still be a way off". Green warned that UK rate bets were "moving in the wrong direction", with markets expecting a BOE cut in September. We note, NZ headline inflation (likely to fall into the low 4's in the March 2024 year) remains above UK inflation in the low 3's.

Overnight data did not provide further fuel to the recent run-up in yields. Markets had already been on the lookout after earlier March CPI surprised to the upside for both headline and core inflation, with annual rates parked well north of 3% and services ex-shelter CPI inflation running at 5.3% yoy. **This morning's March producer price data came in close to expectations for the core (2.4% yoy) and headline (2.2% yoy) measures.** This was preceded by **s**ofter than expected Chinese PPI (-2.8% yoy) and headline (+0.1% yoy) and core (+0.6% yoy) CPI data pushed the CNY lower despite the PBOC earlier setting a higher yuan reference rate (or fix) at 7.0968 USD. US Jobless claims (initial: 211k, continuing 1817k) were also close to expectations.

However, global yields have mostly extended earlier gains, with curves steepening. However, US short-term Treasury yields (2Y 4.94%) have modestly eased from 2024 highs. Long-term US Treasury yields have edged higher (10Y 4.55%), with yield direction not helped by soft demand at this morning's US 30-year Treasury auction (bid cover 2.37, 4.67% yield). Market pricing has a cut almost fully priced in by September, with only about 40bps of cuts over 2024. European yields were generally higher. **NZ swap (2Y 5.06%, 10Y 4.64%) and bond yields (4.75% 10Y) have bounced higher across the curve yesterday following offshore moves.** Yesterday's $500m NZDM tender of the 2029, 2032 and 2051 lines saw solid demand (bid-cover 2.35, yields slightly below mid-market levels) with yields in a 4.69% to 5.05% range, but generally higher comparted to earlier events. Australian bond yields were around 10-15bps higher yesterday (10 4.25%).

US equities have rebounded from earlier drops on expectations that the current earnings season will benefit from the solid US backdrop, with the major tech companies expected to outperform. The Nasdaq (+1.7%) has led the gains with the S&P500 up 0.9%. The equity news was not quite so bright elsewhere. European stocks rose upon the market open but have faded to close in the red for the Eurostoxx 50 (-0.7%), Dax (-0.8%) and FTSE 100 (-0.5%). Stocks closed lower in the Asia Pacific session (ASX 200 -0.4%, NZX50 -0.3%). Oil prices have retreated from earlier highs, weighed by higher US crude inventories. Prices for WTI (US$85.60) and Brent (US$90.20) were 15-20% higher since the start of the year. **There are fears that an Israeli strike on Iran or its allies could see an escalation in the Middle East conflict and a further jump in oil prices.**

The CBA Household Spending Insights (HSI) index for March 2024 increased by 0.2% in seasonally adjusted terms with household spending down since the (last) RBA rate hike in November. Annual growth was steady at 3.4%, barely keeping pace with consumer prices. Our CBA colleagues expect RBA rate cuts from September.

NZ Institutional sector accounts for Q4 showed a slower pace of household saving ($424m s.a.), with cumulative post COVID-19 saving by the household sector up to $22.6bn. Growth in household disposable incomes is slowing (to around 6% pa), but this is more than outstripping (slowing) growth in consumer spending (just over 4% pa). Household net worth barely budged (around $2.6 trillion). All in all, the household sector looks to have ended 2023 in reasonable shape**. However, challenges lie ahead in 2024. Moreover, the aggregate figures are likely to mask contrasting fortunes within the household sector.** Both interest income ($4.5bn) and debt servicing payments ($3.4bn) have jumped considerably over the last couple of years, with some households doing considerably better than others.

FX update: signals of imminent ECB cuts weighed on the euro, which was the weaker performer. The NZD was trading at 0.6080 USD prior to the ECB decision but has fallen sharply post ECB to currently lie just under 60 US cents. Falls in the yen halted at around 153 USD/JPY on speculation that Japanese authorities will soon intervene to support the yen, after top currency diplomat Masato Kanda warned authorities will consider all of their options. The NZD was little changed at around 0.917 AUD.

Day ahead: March Manufacturing PMIs for NZ (49.3 prior) are out ahead of card spending data and monthly pricing data. The early timing of Easter could impact the seasonally adjusted card spending figures (we expect a small lift), but the underlying trend is expected to be weak as the household sector continues to hunker down. March pricing data is expected to show a small seasonal rise for food and for March increases for most other components, with our current Q1 CPI pick (+0.7% qoq) above the 0.4% qoq February MPS estimates. The data is comparatively light offshore. Monthly GDP estimates and February industrial production, manufacturing and services data is out for the UK. CPI data is out for Germany (mkt: 2.2% yoy). US data incudes import and export prices and the University of Michigan consumer sentiment (holding at high levels). There are a few FOMC and ECB speakers on the wires over the next day or so, but none of the big guns. Have a good weekend.

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Currencies

NZ TWI	70.82	0.14%
NZD/USD	0.6	0.42%
NZD/AUD	0.9173	-0.02%
NZD/EUR	0.5593	0.58%
NZD/JPY	91.89	0.45%
NZD/GBP	0.4777	0.27%
NZD/CAD	0.8209	0.43%
NZD/CHF	0.5457	0.06%
NZD/HKD	4.703	0.46%
NZD/SGD	0.8117	0.36%
NZD/CNH	4.353	0.32%
NZD/SEK	6.435	0.47%
NZD/DKK	4.172	0.54%
NZD/THB	21.87	-0.12%
AUD/USD	0.654	0.43%
EUR/USD	1.073	-0.14%
USD/JPY	153.2	0.01%

Source: Macrobond, ASB

Commodities

NZX WMP	3240	-1.22%
Gold $/Oz	2369	1.50%
WTI Oil $/brl	86.21	1.15%

Source: Macrobond, ASB

Rates

NZ OCR	5.50	0.00
NZ 90 Dy Bnk Bll	5.64	0.01
NZ One Yr Swap	5.44	0.04
NZ Two Yr Swap	5.06	0.03
NZ Five Yr Swap	4.61	0.07
NZ 10 Year GB	4.77	0.13
US 10 Year GB	4.56	0.02
AU 10 Year GB	4.26	0.14

Source: Macrobond, ASB

Equities

Dow Jones	38510	0.13%
S&P 500	5206	0.89%
NASDAQ	16456	1.76%
FTSE	7924	-0.47%
CAC-40	8024	-0.27%
DAX	17954	-0.79%
Hang Seng	17095	-0.26%
Nikkei	39443	-0.35%
ASX 200	7814	-0.44%
NZX 50	11934	0.00%

Source: Macrobond, ASB

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