

# The Weekly Snapshot

21 June 2021

## ANZ Investments brings you a brief snapshot of the week in markets

There was a change in momentum last week in international markets with a sharp fall in major market indices on Friday following a hawkish statement from St Louis Federal Reserve President James Bullard. The S&P 500 fell close to 2% for the week breaking a streak of three consecutive weeks of gains. Locally, the NZX 50 and ASX 200 were largely flat. Gold was a big mover dropping nearly 6% for the week.

### What's happening in markets

The most important development from last week was the U.S. Federal Reserve statement released on Wednesday which was more hawkish than expected. While the benchmark policy rate remained unchanged at 0.25%, the Federal Open Market Committee signalled that they expect two increases by the end of 2023 as members see continuing strength in the economic recovery. In its statement, the Federal Reserve noted the improving economic environment:

***"Progress on vaccinations has reduced the spread of Covid-19 in the United States. Amid this progress and strong policy support, indicators of economic activity and employment have strengthened."***

The Fed's economic projections were also revised upwards, as they now expect annual core inflation to reach 3.0% by the end of the year 2021. However, Federal Reserve Chairman Jerome Powell stressed that unemployment remains well below pre-pandemic levels.

The U.S. Dollar strengthened immediately on the news. While benchmark interest rates also headed higher initially, the benchmark U.S. 10 Year Treasury Note then reversed course and ended the week at 1.45%.

The other major news story was the G7 meeting in the U.K. followed by a summit between U.S. President Joe Biden and Russian President Vladimir Putin. The G7 was surprisingly productive and collaborative with agreement on a wide range of issues including action on vaccine distribution and renewed pledges to combat climate change. Arguably the most significant announcement was that the summit participants agreed in principal to levy a 15% minimum corporate tax rate to help alleviate the issue of multi-national companies avoiding tax.

Coinciding with the G7 summit was the announcement that the United States and European Union had agreed to drop US\$11.5bn of aircraft tariffs following a 17-year long dispute over subsidies. The agreement suspends for five years a set of tariffs introduced by former President Trump which had soured relations between the two trading blocs and was a further example of a thawing of trade tensions.

In New Zealand, the ongoing Government response to surging house price inflation was again in the news. On Wednesday, the Reserve Bank announced that they had agreed with the Government to add debt-to-income lending restrictions to their macro-prudential toolkit. This could potentially cap how much a person can borrow to a specific limit of their total income although Finance Minister Grant Robertson was quick to add that the restrictions would be designed to limit their impact on first-home buyers.

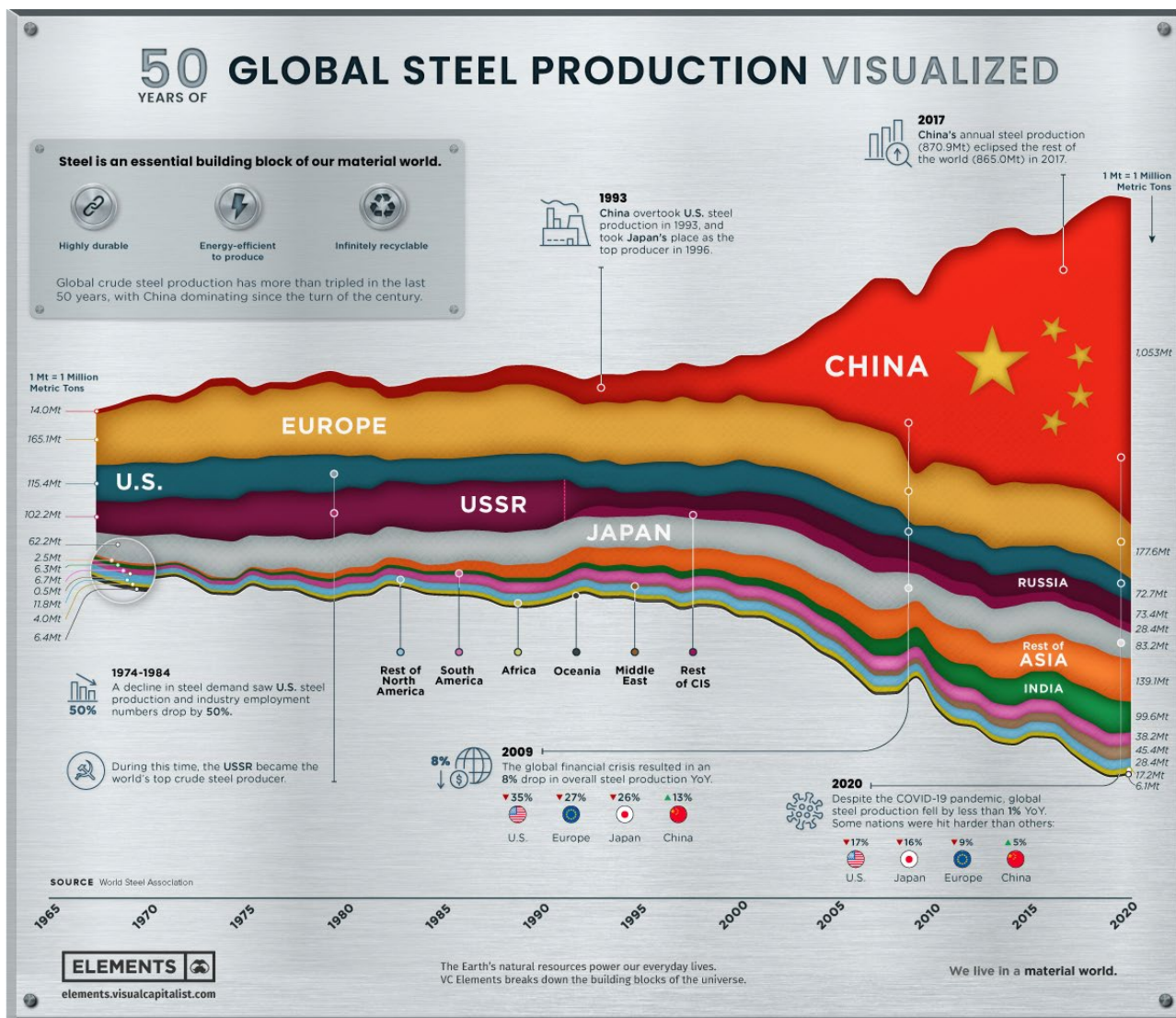
And lastly there was a reminder of the endorsement power of major sports athletes. Portuguese footballing star Cristiano Ronaldo caused a stir when he removed a bottle of Coca-Cola from the table at a news conference during the Euro 2020 football tournament. His admonition to millions of fans to "drink water" caused an immediate 1.6% fall in the market capitalisation of Coke which equated to a decline of an estimated US\$5.2 billion.

### What's on the calendar

It is a relatively quiet data week this week with US house sales figures due out followed by weekly unemployment claims as analysts look for increasing strength in the labour market. Locally, we have the release of New Zealand trade data.

## Chart of the week

A fascinating chart this week showing the history of steel production in the last 50 years.



## Here's what we are reading

The Covid-19 pandemic has caused numerous disruptions to virtually every industry. Some are returning to normal but, as this article notes, the global shipping industry continues to be problematic.

<https://www.npr.org/sections/money/2021/06/15/1006381735/how-chaos-in-the-shipping-industry-is-choking-the-economy>

The continuing rise and popularity of crypto-currencies is forcing global Central Banks to consider e-alternatives to traditional currency if they want to retain control of the money supply. This article explores the motivations and intentions of the U.S. Federal Reserve in respect of a digital dollar.

<https://www.politico.com/news/2021/06/12/fed-remake-us-dollar-493548>

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