The Weekly Snapshot

10 October 2022

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

Global equity markets had a volatile week, with most share markets rising sharply on Monday and Tuesday, before closing on a weaker note. Nevertheless, most benchmarks still ended the week higher, some ending a run of three straight weekly declines. In the US, the S&P 500 gained about 1.5%, while the NASDAQ 100 rose about 0.5%. The volatility came after a slew of economic data, finishing with a robust jobs report in the US.

Locally, the NZX 50 eked out a small gain, rising less than 1%, and despite another 50 basis point hike (as expected) bond yields finished slightly lower.

What's happening in markets?

Beginning in New Zealand, the Reserve Bank of New Zealand (RBNZ) raised the Official Cash Rate (OCR) by a further 50 basis points – its fifth-consecutive 50 basis point hike. While the decision was only accompanied by a statement, there was a slight surprise in that some member(s) considered a larger rate hike.

> ***"The Committee considered whether to increase the OCR by 50 or 75 basis points at this meeting. Some members highlighted that a larger increase in the OCR now would reduce the likelihood of a higher peak in the OCR being required,"*** the RBNZ said in its statement.

On the whole, though, the meeting and statement didn't have too much effect on local markets. And looking ahead, market pricing suggests another 50 basis point hike in November.

Meanwhile, across the Tasman, the Reserve Bank of Australia (RBA) lifted its policy rate by 25 basis points, a smaller hike than most had expected. Like most of its counterparts, the RBA reiterated its focus on returning inflation to its target range, but acknowledged this would take time. "The Bank's central forecast is for CPI inflation to be around 7¾ percent over 2022, a little above 4 percent over 2023 and around 3 percent over 2024," the RBA statement read.

In the US, somewhat ironically, it was some weaker data earlier in the week that pushed equities higher, with the US manufacturing sector growing at its slowest pace in two years. The ISM manufacturing PMI fell to 50.9 in September, with new orders and employment measures contracting (a reading below 50). "Many Business Survey Committee panelists' companies are now managing head counts through hiring freezes and attrition to lower levels, with medium- and long-term demand more uncertain," the report said.

Then on Friday, the highly-anticipated US employment report showed the economy added 263,000 jobs in September, while the unemployment rate fell to 3.5%, reinforcing that the labour market is still robust, and thwarted the possibility – at least according to some – that the Fed may slow down its pace of rate hikes.

The market appears to be interoperating weaker data to mean fewer rate hikes by the Fed, which will support bonds and equities.

What's on the calendar

It's an exceptionally busy week in the US ahead. On the economic data front, all eyes this week will be on US inflation, which continues to run at a stubbornly high level. Another strong reading would likely cement a 75 basis point hike by the Fed this November. Meanwhile, retail sales data is always a good barometer of US consumer spending (it makes up about two-thirds of the US economy), and the Michigan consumer sentiment index should provide more details on how businesses are handling rising costs.

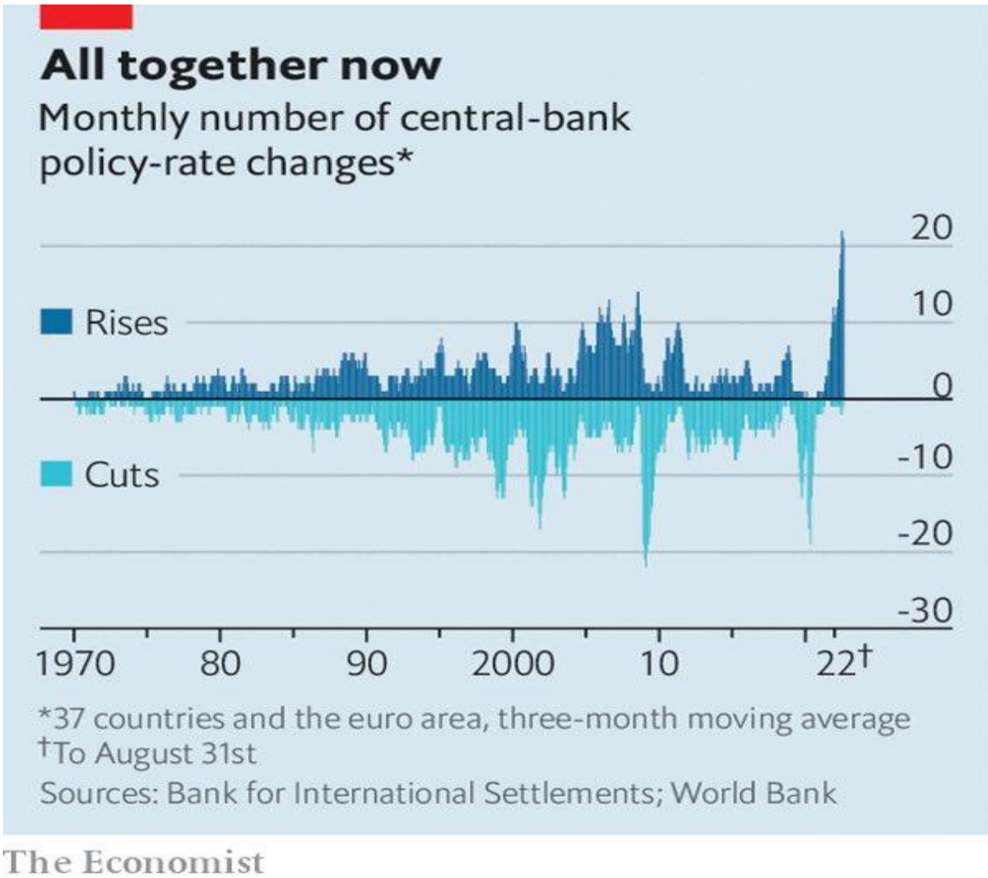
Secondly, corporate earnings get underway, and given the current backdrop, they are likely to play a pivotal role in how equities close out the year. As usual, it begins with banks, with Morgan Stanley, Wells Fargo, Citigroup and JPMorgan Chase all reporting. Elsewhere, Delta Airlines could be a good early measure as to the extent – if any – of the slowdown in the US economy.

Finally, the minutes from September's Fed meeting are released.

Outside of the US, UK employment and GDP figures and China's CPI data are data points to watch.

Chart of the week

If it feels like almost all central banks are raising rates, you'd be right. And do central banks around the world hike and cut at the same time? Not usually.



**Source: The Economist*

Here's what we're reading

Some New York City-specific data on the return to office trend: "Only 9% of employees are in the office five days a week" - https://pfnyc.org/news/partnership-survey-finds-slow-but-steady-increase-in-workers-returning-to-the-office-topping-50-by-the-end-of-the-year/

A story behind the embattled Chinese housing market - https://www.theguardian.com/business/2022/sep/25/china-property-bubble-evergrande-group