The Weekly Snapshot

11 September 2023

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

Share markets were mostly lower across the board last week as oil prices reached year-to-date highs, creating headwinds for the global economy, and reviving inflationary concerns. The threat of a stagflationary outcome (where high inflation is combined with low economic growth) saw bond yields rise making it a challenging week for most investment classes.

In the US, the S&P 500 and NASDAQ 100 both fell more than 1%, while closer to home, the NZX 50 fell 1.6%, trading to a nine-month low.

Meanwhile, in bond markets, 10-year government bond yields in the US, New Zealand and Australia all ended the week higher.

What's happening in markets?

Oil markets were front and centre last week after news that Saudi Arabia and Russia would be extending their voluntary production cuts until the end of the year, creating a tight supply in the fourth quarter. The news saw the price of oil rise sharply, with Brent Crude trading above $90 for the first time since November last year.

Adding to concerns around rising oil prices was news that Saudi Arabia had raised Arab Light Crude prices to Asia and the US – to the US it was an all-time high. Arab Light is Saudi Arabia's major export grade of oil. For the week, most oil benchmarks were up nearly 2%, following gains of about 5% the week prior.

Meanwhile, in China, the economic outlook remained downbeat after trade data showed exports fell 8.8% in August, while imports declined 7.3%. Chinese imports have now fallen every month this year (on an annual basis), while exports have fallen every month since April, signs global demand is starting to slow.

The ongoing weakness in the Chinese economy saw the yuan fall to a 16-year low versus the US dollar, while data from the People's Bank of China (PBOC) showed its currency reserves fell by a little over US$44 billion, slightly more than expected. The fall represents about 1.4% of its currency reserves.

In company news, shares of Apple ended the week down more than 5% after reports that China plans to expand the ban of use of iPhones to government agencies.

What's on the calendar?

After a relatively quiet week in the US, things pick up this week with a slew of tier-one economic data.

On Wednesday, the latest inflation report will likely show monthly inflation picked up on the back of the rise in oil prices. On a monthly basis, it is expected that consumer prices rose by about 0.5%, which would see annual inflation rise to about 3.5%. Core inflation, which excludes volatile food and energy prices, is likely to be a better gauge of overall pricing pressures in August.

Meanwhile, retail sales data on Thursday will give an indication as to the resilience of the US consumer as rising mortgage rates and inflation continue to eat into consumers' savings. So far, US consumer spending – which makes up about two-thirds of the US economy – has remained resilient this year, rising each of the past four months.

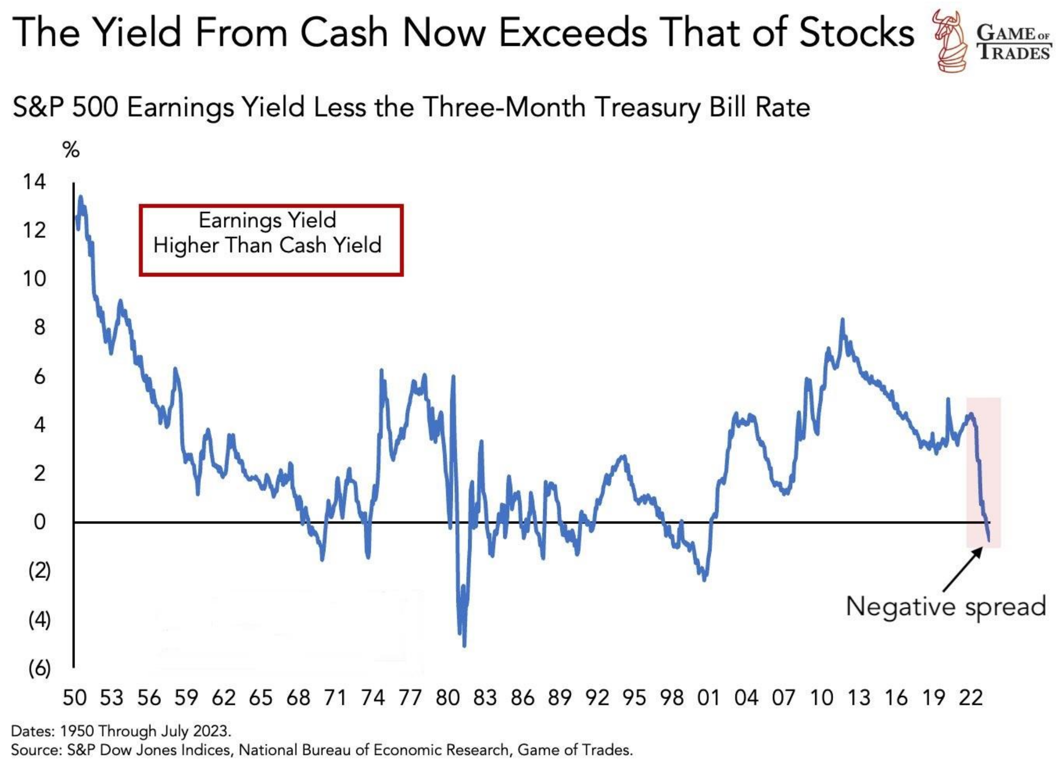
Elsewhere, with the Chinese economy showing further signs of decelerating, industrial production and retail sales data will garner plenty of attention.

In central bank news, the European Central Bank (ECB) will meet on Thursday, where it is expected they will hold interest rates steady after nine consecutive interest rate hikes. Much like the US Federal Reserve (the Fed), the central bank is likely to remain hawkish, indicating interest rates will remain restrictive until they're comfortable that inflation will return to its target level.

Finally, on the back of the news China continues to clamp down on Apple products, Apple's 2023 Annual Fall Event, which will include the unveiling of new products, may offer some insight into the company's strategy as it deals with falling demand from the world's second-largest economy.

Chart of the week

The earnings yield from cash now exceeds that of stocks (S&P 500). The last time this happened was in 2001, and historically when this gap (between stocks and cash) narrows or goes negative (in favour of cash) it has been a signal for a market peak.



Here's what we're reading

Return To Office (RTO) is getting serious – but will it last. [Click here].

The US housing market is stuck. [Click here].

The Middle East has the West in a bind with oil prices – is it setting up like the 1970s. Here's how a Federal Reserve paper described it back then. [Click here].