The Weekly Snapshot

12 December 2022

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

US equity markets ended their recent good run, finishing the week lower as some stronger-than-expected economic data, and more pricing pressures, meant the odds of a quick deceleration in monetary tightening fell.

Over the past few weeks, the hopes of a slowdown in interest rate hikes had been supporting equity markets, but this week saw a reversal of the recent trend with the S&P 500 falling 3.4%, while the more interest rate sensitive NASDAQ 100 fell 4%.

Despite the robust economic data, bond markets were subdued, with yields on government bonds finishing mostly higher.

In New Zealand, all eyes have been on the kiwi dollar which has surged more than 15% off its mid-October low. Last week it eked out a very small gain, its eighth straight week of gains.

What's happening in markets?

Equity markets began the week on the back foot, with indices in the US posting losses of more than 1% on Monday and Tuesday after a survey from the Institute for Supply Management (ISM) showed a surprise pickup in activity in the retail sector, underscoring the still robust economy – especially the labour market – despite fears a recession could be on the horizon.

The survey showed business activity and the employment index both rose from the month prior, while there was just a small dip in new orders. Broadly speaking, responders to the survey painted a relatively upbeat tone, against the backdrop of rising costs. Some comments from those surveyed included:

- "Business is doing well, almost back to pre-coronavirus pandemic volumes." [Agriculture, Forestry, Fishing & Hunting]
- "Generally unchanged month over month. New business requests are solid, with costs rising steadily for materials, meals and lodging." [Construction]
- "Overall business is stable. Employment is low and inflation is lower than last month. Supply chain issues are stabilizing." [Retail Trade]

After last week's robust employment report, the strong data may raise the probability that the US Federal Reserve (the Fed) will continue lifting interest rates to a higher level than their September projection, of 4.6%.

Furthermore, on Friday, the producer price index (PPI) showed wholesale prices rose 0.3% in November, above consensus, while the prior two months were revised slightly higher.

With that said, some labour data showed an easing in conditions, with the number of Americans collecting unemployment benefits rising to 1.67 million, the highest level since February.

What's on the calendar

The highlight this week will no doubt be the Fed's interest rate decision, where it is expected to raise the fed funds rate by 50 basis points. Even though economic data has held up well over the past week or so, interest rate markets have not budged, with the probability of a larger 75 basis point hike still about 20% (it has been at roughly this level for about a month).

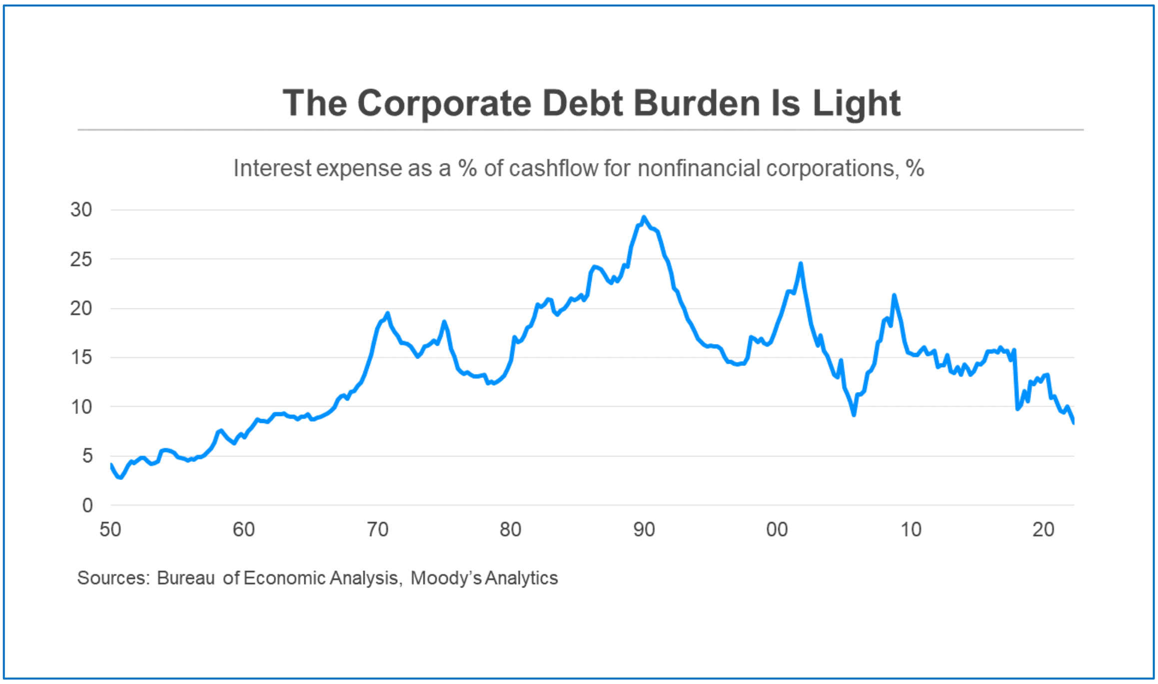
Outside of the rate decision, all eyes will be on the Fed's update to its long-term U.S. economic projections, which include forecasts for growth, employment, interest rates and inflation. In September, the Fed projected 2023 GDP growth of 1.2%, an unemployment rate of 4.4%, a terminal rate of 4.6%, and it lifted the core personal consumption expenditures price index (PCE), the Fed's preferred measure of inflation, to 4.6% from 3.8%.

Other central bank interest rate hikes are potentially on the cards this week, with the Bank of England (BoE) and European Central Bank (ECB) both expected to raise key interest rates by 50 basis points.

In economic data, there's a slew of tier-one data including, US CPI and retail sales, UK GDP, employment data and retail sales. And closer to home we'll be eyeing the NAB Australian business confidence survey and employment data.

Chart of the week

Although household debt payments are growing due to higher interest rates, corporate balance sheets are robust with the level of interest payments to cash flow near a 50-year low.



Here's what we're reading

Why sanctions against Russia aren't working - yet: https://www.npr.org/sections/money/2022/12/06/1140120485/why-the-sanctions-against-russia-arent-working-yet

Here Come the Crypto Hypocrites: Don't believe anyone who says the FTX crash was the regulators' fault: https://www.theatlantic.com/ideas/archive/2022/12/ftx-crypto-currency-sam-bankman-fried-regulators/672351/