The Weekly Snapshot

12 June 2023

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

It was a mixed week for US equity markets, with the high-flying NASDAQ 100 ending its run of six straight weekly gains by falling 0.1%, while the S&P 500 edged higher. In Europe, after trading near an all-time high earlier this year, the Euro Stoxx 50 fell for the third straight week, ending down 0.8%, while the UK's FTSE 100 was off 0.6%.

Down under, some bad news for Pacific Edge weighed on the NZX 50 index, which ended the week down about 1.7%, making it one of the weaker-performing share markets, while in Australia, the ASX 200 was slightly lower over the week.

Bond markets were a tad weaker, but with a busy week ahead, most stayed in relatively tight trading ranges.

What's happening in markets?

In New Zealand, the local share market took a hit with the news that cancer diagnostics company, Pacific Edge had lost its coverage for its Cxbladder tests from American health insurer Medicare because it does not meet the threshold required for coverage under the Social Security Act. The decision came after finalisation of the Local Coverage Determination (LCD) by Novitas, which has jurisdiction over the company.

At one point, shares in the company fell to about 5 cents as the company said it is likely to have a significant effect on its bottom line.

"As a direct result of the LCD, Pacific Edge's revenue is expected to reduce substantially from current levels until Cxbladder tests regain coverage. In the year ended March 2023 (FY 23), tests for Medicare and Medicare Advantage were ~60% of US commercial tests, or ~13,800 tests, and generated ~$15.3 million, or 77.3%, of FY23 total operating revenue", the company said in a statement.

By the end of the week, shares in the company were at 10 cents, down from about 49 cents a week prior.

These events remind us the importance of well-diversified portfolios that smooth out the ups and downs of singular events.

Across the Tasman, the Reserve Bank of Australia (RBA), somewhat surprisingly, raised its policy rate by 25 basis points to 4.10% citing ongoing struggles with inflation and a tight labour market. The Committee said "some further tightening of monetary policy may be required", which saw interest rate markets price in about a further 50 basis points of tightening.

Meanwhile, in economic data, fears of a global slowdown grew after trade data showed China's exports were much weaker than expected as global demand faltered, while imports continued to slow raising concerns that the world's second-largest economy is waning. In the first quarter of the year, China's economy grew at a faster-than-expected pace, but the trade data suggests the strong start to the year was largely due to a backlog of orders following the zero-COVID disruptions.

What's on the calendar

It's a particularly busy week for global markets with the US Federal Reserve and European Central Bank (ECB) both meeting. The Fed is tipped to leave interest rates unchanged, but concerns inflation may be beginning to plateau at an uncomfortable level has seen the probability of a hike grow in the past few weeks. According to the CME FedWatch Tool, there is a 70% chance the Fed leaves interest rates unchanged (a month ago, there was a greater probability of an interest rate cut than a hike). Meanwhile, the ECB is expected to forge ahead with a further 25 basis points of tightening as inflation across the continent remains well above the ECB's target rate.

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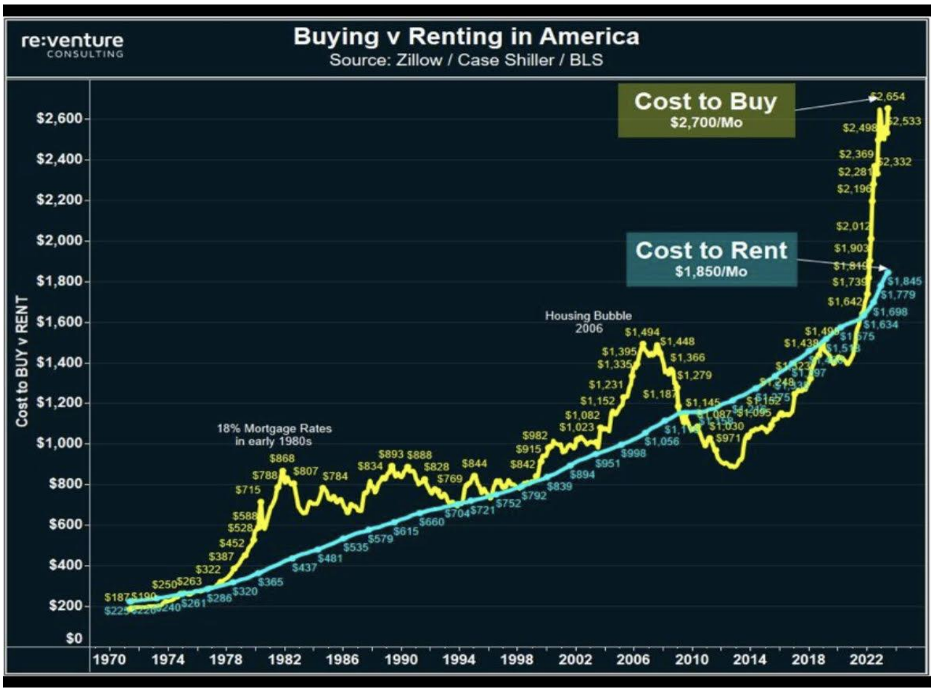
There is also a host of tier-one economic data this week, highlighted by US inflation on Tuesday, where annual CPI is expected to have fallen to about 4%, which would be the lowest level since 2021. However, core CPI, which strips out volatile food and energy prices, is expected to remain stubbornly high at around 5.3%. Elsewhere, the Producer Price Index (PPI), which tracks wholesale inflation, will follow on Wednesday.

Closer to home, New Zealand Q1 GDP is expected to show the economy grew at a tepid pace, with most forecasters expecting a rise of less than 0.5% from the prior quarter. However, some disruptions from Cyclone Gabrielle could provide some noise. It is worth noting, that a negative reading would be the second contraction in a row, putting the economy into a technical recession.

Chart of the week

It's not surprising that it's expensive to buy a house at the moment, but the difference between owning and renting has widened significantly. Additional costs associated with buying that include insurance and property taxes are rising, especially property taxes that are a flat percentage of household assessed value.



Here's what we're reading

China has shifted towards a domestic-led economy, driven largely by the real estate market, but with the population slowing and the number of houses required also falling, it's posing some long-term challenges - https://www.noahpinion.blog/p/real-estate-is-chinas-economic-achilles

Unlisted assets, which are often backed by private equity and venture capital, have yet to see a markdown in value as some may have expected given the rise in interest rates – is that about to change? https://www.institutionalinvestor.com/article/b8yzgybyxxrcmn/There-s-No-Easy-Exit-for-Companies-Backed-by-PE-and-VC