# The Weekly Snapshot

## 14 August 2023

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

It was a topsy-turvy week for global share markets with several trading days having ranges of greater than 1%. By the end of the week, US share markets were some of the weaker performing, with the NASDAQ 100 falling 1.6%, while in Europe share markets were also lower, but losses were smaller – the Euro Stoxx 50 and the FTSE 100 both ended the week down about 0.4%.

Down under, the NZX 50 fell to a six-week low, ending the week down 0.9%, while in Australia, stronger energy prices saw the ASX 200 finish the week up 0.2%.

In fixed interest markets, bond yields were higher across the board despite some promising inflation data out of the US. In New Zealand, the 10-year government bond yield rose for a fourth straight week, closing near 4.90%, which is about 40 basis points off its mid-July low.

**What's happening in markets?**

US inflation data was front and centre last week, and it was good news for policymakers with inflation rising at a slower pace than expected. The consumer price index and the core CPI both rose 0.2% over the month and 3.2% and 4.7% on an annual basis respectively. The core CPI reading was the lowest since October 2021.

Most of the inflation came from rising shelter prices, which make up about one-third of the CPI basket. Shelter rose 0.4% over the month and is up 7.7% on an annual basis. On the contrary, used vehicle prices fell 1.3% in July and airline prices fell 8.1% and are down more than 18% over the past 12 months from the post-pandemic highs.

Meanwhile, in Europe, on Monday, the Italian government passed a one-off 40% windfall tax on profits banks have earned from higher interest rates. The announcement was a surprise and caught financial markets off guard, which saw equity markets, in particular, bank stocks fall sharply. However, late Tuesday, the finance minister said the tax would be capped at 0.1% of assets, essentially diluting the tax take. This update saw equities regain most of what they lost in the prior session.

In New Zealand, there was an easing in food prices with fruit and vegetable prices falling over the month. Overall, the Food Price Index for July rose 9.6% on an annual basis, according to Stats NZ. And across the Tasman, the NAB business survey showed an uptick in inflation-related measures. Labour cost growth rose to 3.7%, while purchase cost growth rose to 2.6% - both much higher from June.

Finally, out of China, there was mixed news. On a positive note, China lifted a pandemic-era restriction on group tours to some of its key trading countries, including the US, Japan, Australia, and several European countries. The news gave a boost to several travel sector and airline stocks. However, more concerning, economic data showed Chinese exports fell 14.5% in July, the biggest decline since February 2020. The data underscored rising geopolitical tensions and slowing global consumer spending – China is the world's largest exporter. Chinese imports also fell more than expected.

**What's on the calendar?**

This week, the Reserve Bank of New Zealand (RBNZ) meets where it is expected to leave the Official Cash Rate (OCR) unchanged at 5.50% and reiterate its cautiously optimistic stance on inflation. It has said it expects the OCR to peak here at 5.50%, but with inflation, notably domestically driven inflation, still well above the central bank's target, risks remain that it could stay higher for longer, resulting in further tightening down the track. More detail on this will come in the quarterly economic update.

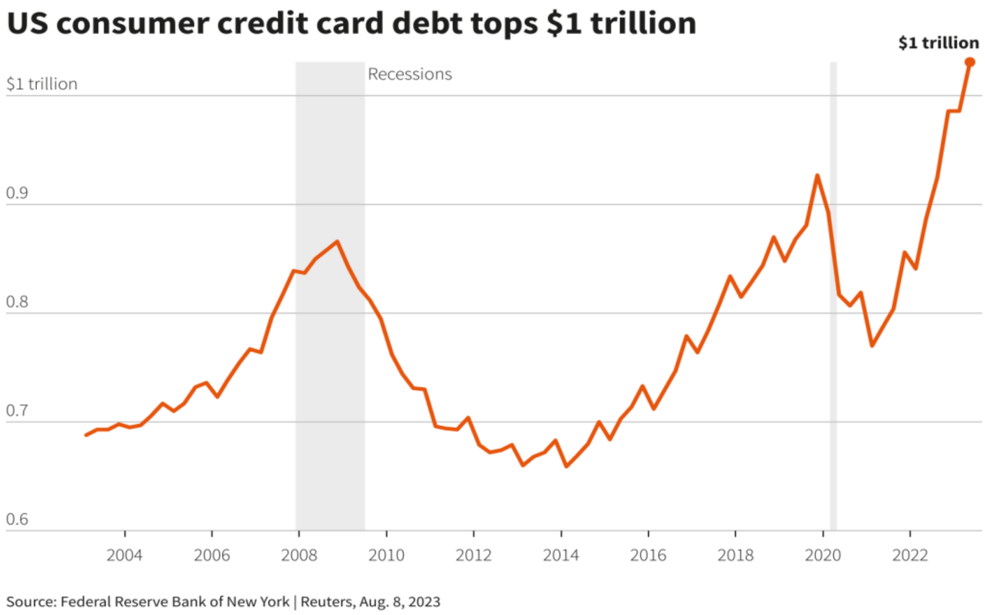
It's a busy week in China with several key economic data points due out Tuesday including industrial production, retail sales and unemployment figures. Retail sales in particular should offer a good look into the state of the local economy, with several data points suggesting consumers are pulling back spending as the economy slows.

In the US, retail sales data is expected to show a fourth straight monthly increase, which continues to increase the likelihood, in some eyes, that the US economy can engineer a soft landing. Also in the US, minutes from July's Fed meeting may offer some clues on the trajectory of monetary policy, especially as the market begins to price out any further hikes.

Central bank minutes will also be the centre of attention in Australia after the Reserve Bank of Australia (RBA), somewhat surprisingly, left interest rates unchanged in August. The RBA appears to be comfortable with the current level of interest rates, despite ongoing inflation pressures, a tight labour market and a rebound in house prices. And speaking of labour market strength, the latest employment report is released on Thursday.

**Chart of the week**

The latest New York Fed survey on household debt showed credit card debt topped US$1 trillion for the first time. The data underscores the strength of the US consumer, but also raises concerns that if the labour market does start to ease, households will have high interest-bearing debt to pay. And on this note, credit card delinquencies, measured on a four-quarter average, are at an 11-year high, while on a quarterly basis, it doesn't look as alarming, with delinquencies at or around pre-pandemic levels.




**Here's what we're reading**

NY Fed: Total Household Debt Reaches $17.06 Trillion; Credit Card Debt Exceeds $1 Trillion. Click here.

Following the credit card debt surge, here's Ben Carlson on why he's not worried. Click here.

Liberty Street Economics: Why Do Forecasters Disagree about Monetary Policy. Click here.