The Weekly Snapshot

16 October 2023

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

It was an up and down kind of week in global financial markets, against the backdrop of the Israel-Hamas war, higher global oil prices, and investor anticipation ahead of closely watched US inflation data.

Bond market volatility remained heightened throughout the week, but bond yields ultimately finished the week lower (meaning their prices ended higher). By the end of the week the yield on the US 10-year government bond was 4.53%, down 27 basis points.

Global equity markets also had a mixed week, but most indices finished in the green. Japanese and UK stocks were some of the best-performing. In Japan the Nikkei 225 Index was up 4.2%, as investors bought back companies that had fallen sharply in the recent sell off when they realised the fundamentals for the Japanese economy had not really changed that much. Meanwhile the UK's FTSE 100 Index gained 1.4%, benefiting from its heavy weighting to oil companies – which performed strongly as the price of oil rose from around $85 a barrel to over $90, as the Israel-Hamas conflict raised concerns that the fighting could affect oil production in the region. In the US, the S&P 500 Index rose 0.5%.

In New Zealand, equities continued to underperform their global peers, with the NZX 50 Index broadly unchanged. The local index is down about 2% year-to-date compared to the S&P 500 Index, which is up more than 12%.

What's happening in markets?

In New Zealand, the General Election took centre stage last week, with the election night results showing that the National Party is set to lead the next government after winning 39.0% of the vote. Labour had 26.9%, the Green Party 10.8%, ACT 9.0%, NZ First 6.5% and Te Pāti Māori 2.6%.

As it stands, National and ACT could form the next government, with a combined 61 seats, however, they may still need to call on NZ First depending on the outcome of a number of factors yet to be decided; including the counting of special votes, whether there is a parliamentary overhang, and the upcoming by-election result in Port Waikato. It could be a few weeks yet until we know for sure what the next Government will look like.

In economic data, US inflation data showed the consumer price index rose 0.4% in September and 3.7% from a year ago, slightly higher than most forecasts. Excluding food and energy prices, the so-called core inflation rate rose 0.3% on the month and 4.1% from a year ago. Sticking with recent trends, shelter inflation was the main driver, rising 0.6% for the month and 7.2% from a year ago.

The faster-than-expected inflation data followed US PPI (Producer Price Index) data, which also surprised to the topside, with wholesale prices rising 0.5% in September. The back-to-back upside surprises likely caught the eyes of policymakers who have said they're in "data dependent" mode.

Meanwhile, Friday's slew of Chinese economic data showed year-on-year inflation was flat, while PPI fell 2.5%, signs that domestic demand remains tepid. Year-on-year PPI has now fallen for 12 straight months. And in trade data China's imports and exports both fell 6.2%. The imports were slightly worse than expected, again highlighting a slowing of domestic demand.

Finally, we had the start of third-quarter earnings announcements, with three of the large US banks all providing updates to the market. JP Morgan Chase's third-quarter profit soared 35% from last year, fuelled by the rapid rise in interest rates. Meanwhile its rival, Wells Fargo, beat analysts' third-quarter profit estimates and raised its annual forecast for income from interest payments, while Citigroup's profits also edged higher. Despite the positive results, all three warned of challenges ahead, citing factors such as the geopolitical environment, faltering consumer finances and the impact of a slowing economy.

ANZ INVESTMENTS

What's on the calendar?

This week, the all-important New Zealand inflation figures are released. It is expected year-on-year inflation remained stubbornly high around 6% as the end of the fuel tax excise duty and public transport subsidies added to inflation pressures, while higher oil prices would have also created headwinds. Domestic pricing pressures, as measured by non-tradable inflation, is also expected to have barely budged from its 6.6% annual pace in the June quarter.

In the US, retail sales data will give another update on the resilience of the US consumer. After a weak end to 2022 and start of 2023, retail sales have risen for the past five months, indicating US consumers are holding up well in the face of higher borrowing costs.

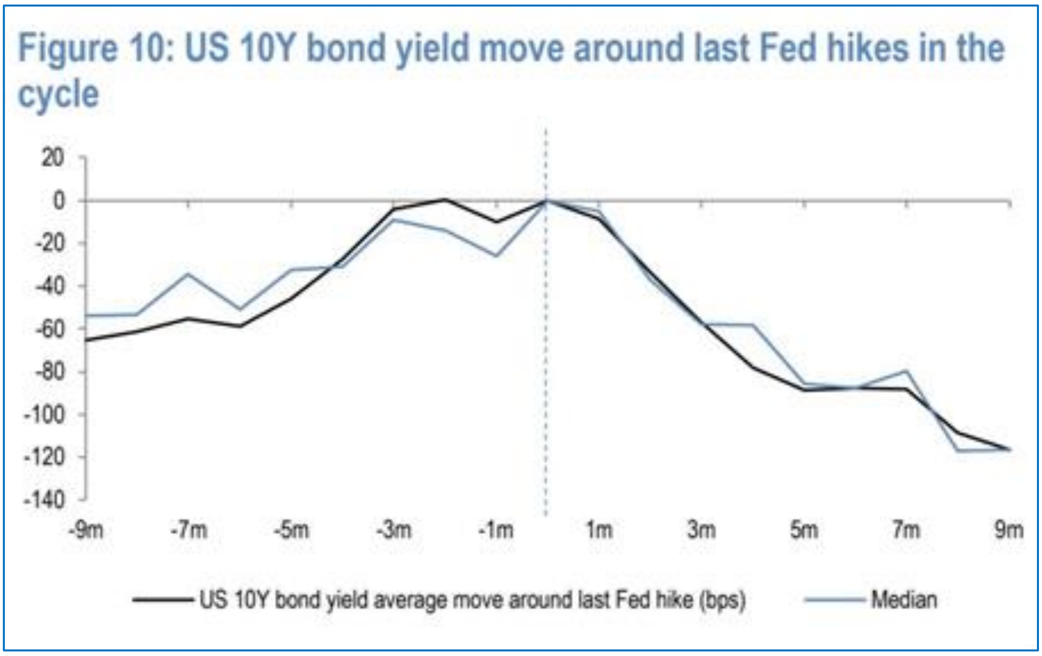
Staying in the US, Fed Chair Jerome Powell will speak at the Economic Club of New York on Thursday, where he will deliver prepared remarks on the economy and then take questions from a moderator. With a Fed meeting a little over two weeks away and some recent strong data (inflation and jobs), he may be quizzed on the chances of another interest rate hike.

Earnings season continues with more banks set to report including Bank of America, Goldman Sachs, and Bank of New York Mellon, while other big names include Johnson & Johnson, Tesla and Netflix.

Finally, the geopolitical unrest in Israel will stay on the radar with the risk to financial markets being if the conflict spills over bringing other countries into the war.

Chart of the week

With interest rates markets suggesting the Fed is close to or has finished its rate-tightening cycle, here's a look at what the US 10-year government bond yield has historically done after the Fed's last rate-hike. If history is anything to go by, seven months after the last hike, the 10-year yield is about 100 basis points lower.



Here's what we're reading

Why are interest rates spiking? Click here.

Spending down pandemic savings is an "Only-in-the-U.S." phenomenon. Click here.

Monetary policy: Progress is not victory (SF Fed). Click here.