The Weekly Snapshot

17 April 2023

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

Global equity markets rose last week as signs that higher interest rates are starting to cool inflation continued. In the US, the S&P 500 gained 0.8%, while the NASDAQ 100 rose a more modest 0.1%. It was the fourth weekly gain for the two indices over the past five weeks. European stocks also rose, with the Euro Stoxx 50 trading near a 22-year high, finishing the week up 1.9%.

Closer to home, the NZX 50 finished marginally higher, while the ASX 200 had a good week, with the commodity-heavy index benefiting from higher oil prices.

Despite the softer-than-expect price data, bond yields drifted higher, perhaps a sign they had reached oversold levels after some government bond yields had fallen four out of the prior five weeks.

What's happening in markets?

It was a good week for US policymakers with several data points indicating a meaningful slowdown in prices and a cooling of demand, signs that the cumulative interest rate hikes are starting to help ease pricing pressures.

The main data point was the US inflation report for March, which showed consumer prices rose just 0.1% from the month prior, which dropped the annual rate to 5%, the ninth-consecutive fall in annual inflation, and the lowest level since mid-2021.

The good news for policymakers was that food prices were flat over the month, and the 0.6% rise in shelter (housing-related) was the smallest gain since November. However, shelter, which makes up about one-third of the CPI basket, is still up more than 8% from a year prior.

Then on Thursday, the March producer price index (PPI), which measures prices paid by companies, declined by 0.5%, well below most forecasts. This is another good sign for policymakers because the PPI is generally considered a leading indicator.

On the demand front, retails sales fell 1% in March, below consensus, and it was the fourth monthly drop in five, and sixth fall over the past nine months.

Elsewhere, in somewhat of a surprise, the minutes from the Fed's March showed the Committee said, in the wake of the banking crisis, the economy could enter a recession later this year.

> ***"Given their assessment of the potential economic effects of the recent banking-sector developments, the staff's projection at the time of the March meeting included a mild recession starting later this year, with a recovery over the subsequent two years",*** – the minutes read.

Staying in the US, earnings season got underway with banks reporting better-than-expected numbers. JPMorgan Chase reported a profit of US$12.6 billion, up 52% from the first quarter of 2022, while Citigroup reported a $4.6 billion profit and Wells Fargo $5 billion. The good figures will be a welcome relief to officials after recent jitters in the banking sector.

Meanwhile, across the Tasman, the Australian labour market remained strong with net employment rising 53,000 in March from February, while the unemployment rate remained at a near 50-year low. The strong report will put some heat on the central bank that paused its hiking cycle earlier this month.

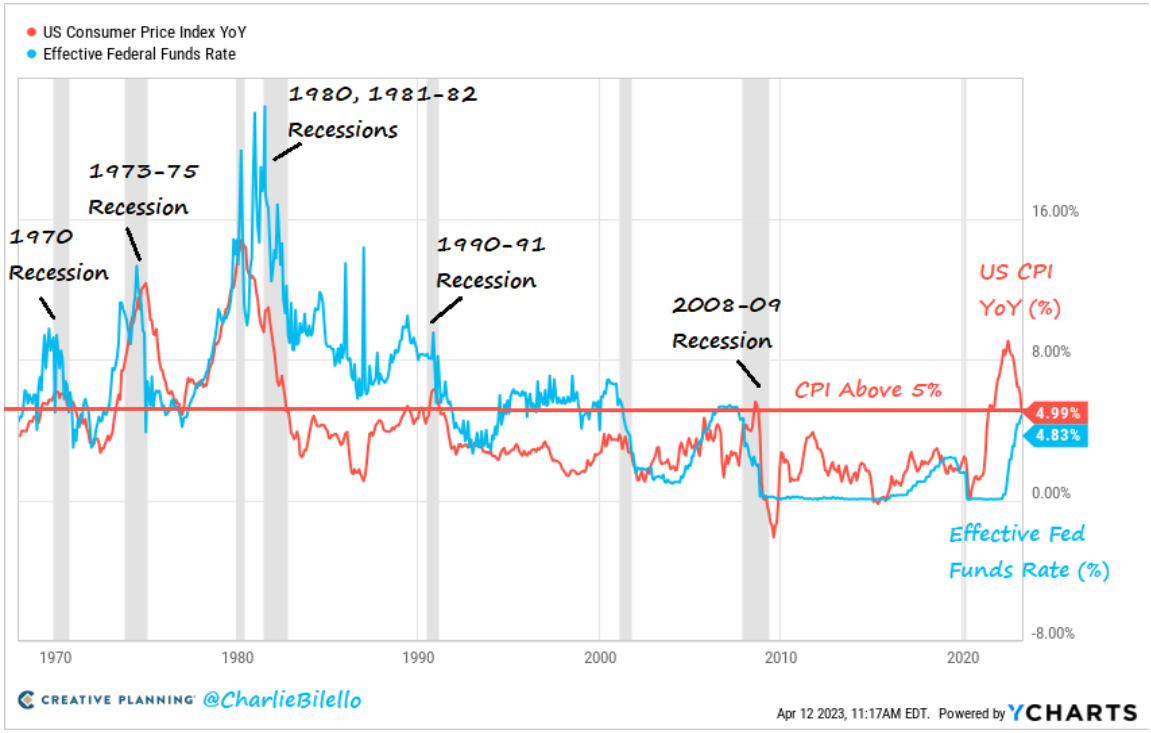
What's on the calendar

After a relatively quiet period in New Zealand, this week sees the all-important inflation report. After lifting the Official Cash Rate (OCR) 500 basis points, including a surprise 50 points earlier this month, the Reserve Bank of New Zealand (RBNZ) will be hoping to see prices starting to slow at a meaningful pace like in other developed nations. Additionally, inflation is becoming a political pawn, with the opposition party blaming excessive fiscal stimulus for the record levels of inflation.

It's also a busy week offshore with a slew of data out of China (GDP, retail sales and employment) and the UK (inflation, employment and PMI figures), while bank earnings roll on with Goldman Sachs, Morgan Stanley and Bank of America all reporting.

Chart of the week

History shows that when inflation is above 5% and the Fed is hiking, a recession follows – will it be the same this time?



Here's what we're reading

With interest rates on the rise and credit conditions tightening, the private market appears to be in for a challenging period - https://www.institutionalinvestor.com/article/b8y8thbr35nzkh/Private-Equity-Fundraising-Is-Looking-Bleak

A quick piece on what the Fed should do now inflation has hit 5% - https://ritholtz.com/2023/04/cpi-5-0/