

The Weekly Snapshot

20 February 2023

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

Global equity markets fell for the second week in a row, as stronger than expected US economic data appeared to suggest the Federal Reserve (the Fed) might need to continue raising interest rates in order to bring down demand. It included closely-watched CPI (Consumer Price Index), PPI (Producer Price Index) and retail sales data.

The S&P 500 Index fell by 0.28%, its second negative week in a row, while the tech-heavy NASDAQ 100 Index managed to hold onto its earlier gains to finish 0.59% higher. However, European markets fared much better, with the UK's FTSE 100 Index gaining 1.6%, hitting a new all-time record high.

Australasian equities also fell. The NZX 50 Index finished 0.2% lower amid mixed earnings announcements, and as investors contemplated the impact of Cyclone Gabrielle on New Zealand's economy and its key exporting industries. Across the Tasman the ASX 200 Index was down 1.2%, on inflation and interest rate worries in overseas markets.

Global bonds fell across the board. In the US, the 10-year government bond yield hit levels not seen since November last year, finishing the week at 3.82%. Meanwhile, New Zealand bonds were weak, with the yield on the 10-year bond up 17 basis points to 4.36%, as the prospect of additional government borrowing to fund the infrastructure spend in the wake of the cyclone weighed on the local bond market.

What's happening in markets?

Inflation in the US, as measured by the Consumer Price Index (CPI), cooled for a seventh month in a row, however, prices continue to rise far more quickly than expected. Inflation was 6.4% in the 12 months to January (down slightly from 6.5% in December), driven by a jump in housing, food and energy costs. Housing costs - one of the biggest components of the price index - climbed more than 7%.

Adding to the inflationary concerns was January's Producer Price Index (PPI), an inflation metric that tracks wholesale prices. While it too showed that prices are cooling on an annual basis, on a monthly basis they jumped 0.7%, its largest month-on-month increase since March 2021. This particular data point is important for the earnings outlook, as it suggests input costs remain high while the ability to pass on price increases to consumers is beginning to wane.

Elsewhere there was stronger-than-expected retail sales, which surged 3% in January. Purchases of motor vehicles and other goods pushed the numbers well past the 1.8% estimate. While it demonstrates the resilience of the US economy, market gains were capped as investors began to worry about more interest rate hikes from the Fed in the month ahead.

Given the stronger-than-expected data, it was little surprise that there was a focus on Fed commentary and what the various governors of the interest rate-setting committee are saying. Of note were comments from James Bullard (President of the St. Louis Fed), who said he had backed a 50 basis point increase at the Fed's January meeting (when they opted to raise rates by only 25 basis points), and would not rule out a rate increase of the same magnitude at the upcoming March meeting.

At home the focus was on Cyclone Gabrielle and what it means for New Zealand's economy. But before we go further, it would be remiss to talk about the financial repercussions of this event without first acknowledging the sad and devastating human impact. Our thoughts go out to our clients and their families who have been impacted.

The NZX 50 Index finished the week slightly lower, with those companies with exposure to the flood-stricken region of Hawke's Bay amongst the biggest decliners. The devastating floods are likely to have a long-lasting impact on our primary industries, including food production and dairy. This will put additional pressure on inflation, not only due to supply-chain issues but the additional costs of getting goods around the country due to the damage to transport infrastructure. It'll also impact on tourism, at a time when the country is only just welcoming back overseas visitors to our shores.

There will likely be an immediate economic impact through the loss of productivity, businesses which can't open and people who are at home and unable to work. As a result, economic growth (as measured by GDP) will likely take a hit. However, longer term, GDP may get a boost as the repairs and rebuilding get underway.

What's on the calendar

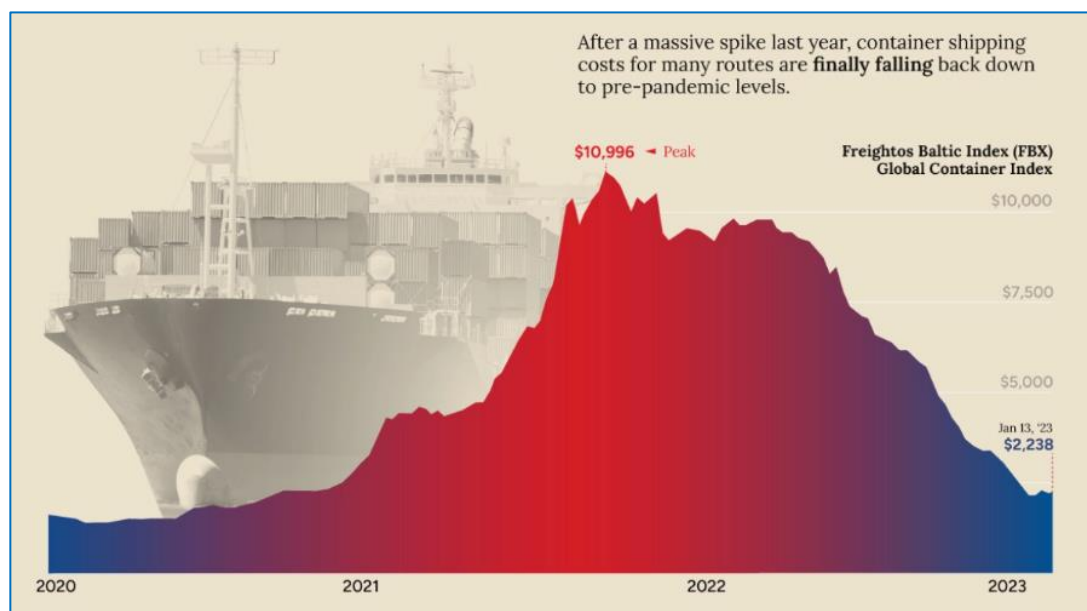
Central banks in the US and New Zealand will be in focus this week.

In the US, minutes from January's meeting of the Fed will be released. On the one hand the Fed said it intends to 'stay the course' in terms of getting inflation lower, but the 25 basis point hike it implemented last month suggested it was starting to ease off slightly. The minutes from its meeting will offer investors greater insights into what its members were thinking.

At home, all eyes will be on the Reserve Bank of New Zealand (RBNZ) meeting on Wednesday. While expectations are for the bank to continue to raise interest rates, it could hold off (or deliver a smaller-than-expected hike) to give it time to fully understand the impact of Cyclone Gabrielle on the broader economy. Market expectations going into the week are for a further 50 basis point hike, to 4.75%.

Chart of the week

A little over a year ago, congestion at US ports made headlines, pushing global shipping costs to record highs. However, container shipping costs have fallen to pre-pandemic levels, down 80% from their peak.



Here's what we're reading

Inflationary risks from Cyclone Gabrielle – a research note from ANZ's Research Team:

<https://www.anz.co.nz/content/dam/anzcons/documents/economics-and-market-research/2023/ANZ-Insight-Inflationary-risk-from-Gabrielle.pdf>

Consumer Price Index (CPI) vs Producer Price Index (PPI) – What's the difference?

<https://www.investopedia.com/ask/answers/011915/what-difference-between-consumer-price-index-cpi-and-producer-price-index-ppi.asp>

A perfect stock market indicator? Can magazine covers really help you time the market?

<https://www.mauldineconomics.com/editorial/a-perfect-stock-market-indicator>

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