The Weekly Snapshot

20 May 2024

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

Global share markets continued their good run last week, buoyed by news that inflation in the US was showing signs of cooling, raising hopes that interest rate cuts by the US Federal Reserve (the Fed) may come sooner than expected.

The strong week saw several US indices reach all-time highs, with the S&P 500 rising 1.5% and the Nasdaq 100 up 2.1%. For the Nasdaq 100, it was its fifth straight week of gains. Meanwhile, Australian equities also had a good week, with the ASX 200 rising 0.8%. However, it was a different story in New Zealand, with the NZX 50 continuing its run of underperformance, ending the week down 0.5%.

The softer-than-expected US inflation data was good news for bond prices, with several government bond yields falling to multi-week low (as bond yields fall, bond prices rise). In the US, the 10-year government bond yield fell to a six-week low, ending the week down 8 basis points. Other bond markets followed suit with 10-year yields in New Zealand and Australia also finishing the week lower.

What's happening in markets?

All eyes were on Wednesday's US CPI report, which showed prices rose at a slower pace than expected, suggesting that inflation may have resumed its downward trend. For April, prices rose 0.3% and 3.4% on an annual basis, down from 3.5% in March. The core CPI measure, which excludes food and energy prices, came it at 0.3% in April and 3.6% on an annual basis – the lowest level in about three years.

Shelter costs remain persistent, which were 5.5% higher on an annual basis, while transportation and medical care costs also rose. On the flipside, prices for new and used cars fell, as did prices for household furnishings.

In other pricing data, the US Producer Prices Index (PPI), a measure of prices at the wholesale level, rose 0.5% in April, which was above consensus. However, offsetting some concerns of higher prices was a revision of the March reading to a 0.1% decline, from an originally reported 0.2% gain.

Finally in the US, retail sales were flat in April, signs that higher prices are starting to cool consumer spending.

Meanwhile, in Europe, data showed that the region climbed out of recession, with GDP (Gross Domestic Product) growing 0.3% in the first quarter of 2024, while in the UK, the unemployment rate jumped to 4.3% and the number of vacancies fell, signs the labour market is cooling. This saw the number of unemployed people per vacancy rise to 1.6. "*Although this ratio remains low by historical standards, it does demonstrate a slight easing in the labour market, with vacancies falling alongside rising unemployment*", the Office for National Statistics said.

And in Australia, the unemployment rate rose by more than expected in April to 4.1%, up from 3.9% in March. Although net employment rose 38,500, all the gains were part-time workers, with full-time employment falling 6,100. The cooling of employment conditions was a welcome relief for policymakers, who maintained a hawkish bias at last week's Reserve Bank of Australia (RBA) meeting. The employment figures saw interest rate markets price out the possibility of further rate hikes in 2024.

What's on the calendar?

Domestically, all eyes will be on the Reserve Bank of New Zealand (RBNZ) meeting on Wednesday, where it is expected the Official Cash Rate (OCR) will be left unchanged at 5.50%. Despite the consensus of no change, the meeting could offer up some surprises given the current state of the local economy.

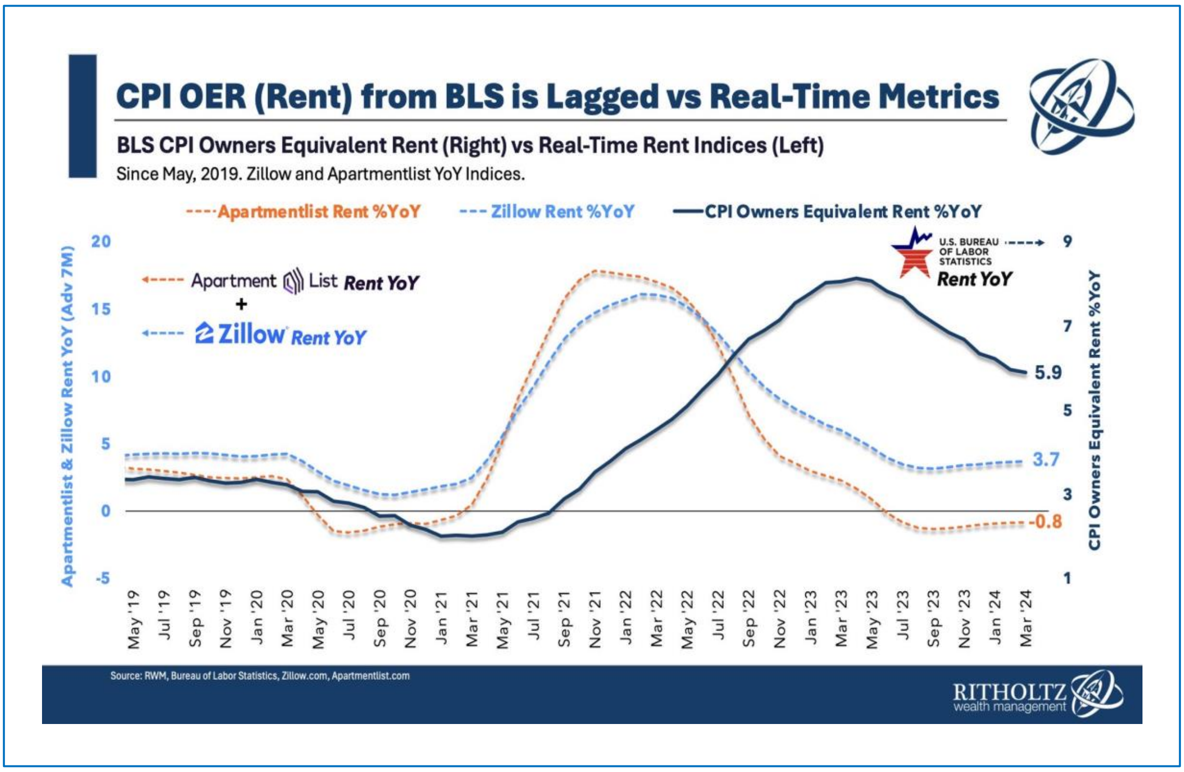
On one hand, the unemployment market is cooling, growth is sluggish, and sentiment is down – all things that point to possible policy easing. However, the key headwind remains inflation. If the RBNZ feels inflation, while still high, is on a clear path lower, they could begin to discuss rate cuts (or rule out further hikes). However, going by previous meetings, they appear steadfast in their goal to bring inflation back to target levels as soon as possible.

In economic data, highlights include New Zealand retail sales, UK inflation and retail sales, while minutes of recent central bank meetings are released in the US and Australia.

Finally, we will also see arguably the biggest earnings report when Nvidia posts its first quarter numbers on Wednesday. The high-flying tech company is expected to post ~$23 billion in revenue, which would be an increase of more than 200% versus the first quarter of 2023. Investors will also be looking at data centre revenue given the vast amount of computing power and data storage that AI applications require.

Chart of the week

With shelter inflation remaining the thorn in the side of US policymakers, the below chart shows that perhaps they should be looking through the current data because Owners' Equivalent Rent (OER), which the Bureau of Labor Statistics uses to calculate inflation, significantly lags real-time data.



Here's what we're reading

An Oil Price-Fixing Conspiracy Caused 27% of All Inflation Increases in 2021. [Click here].

Regarding the above: FTC Order Bans Former Pioneer CEO from Exxon Board Seat. [Click here].

US Fed's Powell expects inflation to fall, though not as confident as before. [Click here].

Inflation is Cooling. [Click here].