The Weekly Snapshot

21 August 2023

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

A number of factors combined to send international equity and bond markets lower last week. It included a plethora of economic data, including weaker-than-expected readings out of China, as well as minutes from the last meeting of the US Federal Reserve. Adding to this were renewed concerns about the state of the Chinese property market.

At home, the focus was on the Reserve Bank of New Zealand (RBNZ), which met for the first time since it paused on its rate hiking cycle last month.

Against this backdrop, the S&P 500 Index in the US fell 2.1%, while the NASDAQ 100 Index was down 2.2%. Asian shares were particularly weak given disappointing news out of China, with Hong Kong's Hang Seng Index down 6.0%. Down under, the NZX 50 Index fell 1.8%, while in Australia, the ASX 200 Index was down 2.6%, as its economy is particularly prone to China's weakness.

In fixed interest markets, bond yields were higher across the board as the prospect of further interest rate hikes increased. The yield on the US 10-year government bond hit a 15-year high, finishing the week at 4.25%, while the yield on the equivalent New Zealand government bond rose to above 5% for the first time since 2011.

What's happening in markets?

The prospect of further rate hikes saw investor sentiment wane, leading to the weaker performance of share markets and bond markets alike. There were several catalysts behind the moves:

- Minutes from July's US Federal Reserve (the Fed) meeting – where it raised interest rates by 25% - showed that inflation concerns lingered amongst committee members. The federal funds rate currently stands at 5.25%-5.50%, the highest in 22 years. *"With inflation still well above the Committee's longer-run goal and the labor market remaining tight, most participants continued to see significant upside risks to inflation, which could require further tightening of monetary policy,"* the meeting summary stated.

- Upside surprises to US economic data also led to higher growth expectations, prompting some commentators to revise up their GDP forecasts for the economy. July retail sales were stronger-than-expected, up 0.7%, while industrial production jumped 1.0% over the month (0.3% expected).

- Economic data out of China also pointed to an ongoing economic slowdown there, with many closely-watched data points missing expectations. It included retail sales, industrial production and fixed asset investment. Also, in an unusual move, authorities did not include unemployment figures for young people as part of its regular release; the 16-24 category has seen unemployment far above China's overall jobless rate, having reached a record high of 21.3% at its last release.

- Staying in China, a number of failed property developers continue to hit the headlines and there's some nervousness around the stress this sector is facing. Evergrande Group filed for bankruptcy protection in the US, while Country Garden struggled to make coupon payments on its US dollar-denominated bonds. Outside of the property sector, investors were also nervous about Zhongrong Trust, following reports it had missed payments to a number of its corporate investors.

Meanwhile, in New Zealand, and as widely expected, the RBNZ left the Official Cash Rate (OCR) unchanged at 5.50%. However, the central bank opened the door to the possibility of another rate hike later this year. Governor, Adrian Orr, said that while headline inflation and inflation expectations have declined, measures of core inflation remain too high.

The committee agreed that the OCR needs to stay at restrictive levels for the "*foreseeable future*", but pushed out when it expects to start cutting the OCR, to 2025. Its revised forecasts also suggest a 40% chance of a further 0.25% rates hike to 5.75% sometime in 2024, most likely at its November meeting.

What's on the calendar?

On the central bank front, all eyes will be on US Federal Reserve Chairman, Jerome Powell, who will speak at the Jackson Hole Economic Policy Symposium 2023. With minutes from the Fed's last meeting leading to an intensification of rate hike concerns, the annual symposium provides an opportunity for central bankers to update markets on where their thinking is at. The tone of his commentary could influence market expectations.

European Central Bank President, Christine Lagarde, will also speak in Jackson Hole, with everyone focused on potential hints on what might happen at the central bank's next meeting in September. In July she said that both another rate hike *or* a hold were possible.

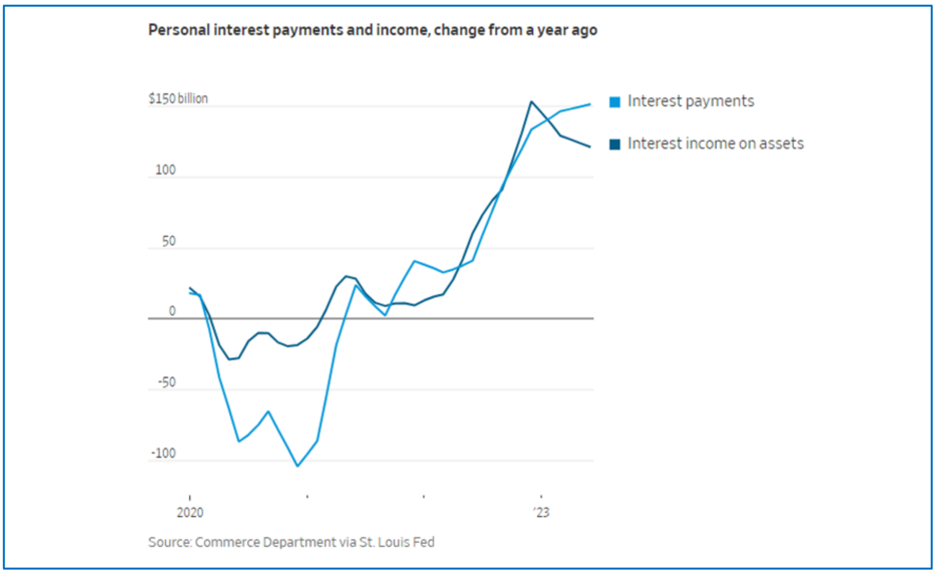
In terms of economic data, the calendar is light. The focus mid-week however will be on global manufacturing and services flash PMIs (Purchasing Manager Indexes) for August. Market participants will be closely watching to see if recent weakness in the manufacturing sectors has spread to the services sectors.

At home, economic data includes New Zealand's trade figures for July, and second-quarter retail sales.

Finally, in company news, investors will be closely watching chipmaker Nvidia's result as the reporting season draws to a close. It's set to report results from a quarter that prompted the company to raise its revenue outlook by 50% - and follows its previous result which started a two month-long rally in equity markets.

Chart of the week

Depending on who you ask, higher interest rates are leading to the best or the worst of times. This chart tells that story. US households are earning $121bn more in investment interest income versus a year ago, but are paying $151bn more in interest payments on their loans. Households with no assets and variable rate debt, are likely feeling the most pain.



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