The Weekly Snapshot

21 November 2022

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

It was a mixed week for investment markets as a myriad of events – some positive, some not so – saw most equity markets oscillate around flat. In the US, the S&P 500 ended the week down about 0.5%, while European markets were mostly higher, albeit with small gains. In Australasia, equity markets also had a quiet week with the NZX 50 rising less than 1% and the ASX 200 finishing unchanged.

It was a better week for bonds though, which rose on more softening price data out of the US. For the week, the yield on the US 10-year government bond fell about 10 basis points, but did touch a six-week low on Wednesday, while in New Zealand, the 10-year equivalent also traded to a six-week low.

What's happening in markets?

Despite the relatively quiet week in equity markets, it was not without several key events.

The inflation outlook in the US improved further with producer price growth rising at a slower pace than expected in October as services fell for the first time in nearly two years. The report also showed a decline in the price of wholesale goods, excluding food and energy, which will be a welcome relief to policymakers that track core inflation. This comes after last week's consumer price data that showed the rate of inflation fell below 8% for the first time in eight months.

Despite this, the hope of a Fed pivot moderated after retail sales data beat expectations, rising 1.3% in October, underpinning the resilience of the US consumer. The larger-than-expected rise in retail sales saw the Atlanta Fed raise its annualised fourth-quarter GDP growth estimate to 4.4% from 4.0%.

It was a mixed bag for corporate earnings, especially among the large retailers. Walmart reported relatively upbeat results as Americans continued to flock to the company's lower-priced grocery items amid the cost of living challenges. In an interview, Walmart CFO John David Rainey said households' "pocket books are stretched" adding that "people have less discretionary income or less disposable income to spend on things… and so they're looking for value".

Meanwhile, things weren't as rosy with fellow retail giant Target, which saw a near 50% drop in profit as it dealt with unwanted overbought inventory and saw sales slow as it headed into the holiday season. This prompted the company to lower its expectations for what is considered the busiest time of the year. Moreover, Target plans to cut up to US$3 billion in costs over the coming three years, but said it does not have plans for layoffs or hiring freezes.

Finally, in geopolitics, tensions rose last week when a Russian-made missile landed in Poland heightening fears of an escalation between the West and Russia. Preliminary findings from NATO suggest the missile was a defence missile fired by Ukrainian anti-aircraft defence in the wake of ongoing attacks by Russia targeting key infrastructure.

What's on the calendar

The Reserve Bank of New Zealand (RBNZ) meeting on Wednesday will highlight the week ahead with the market split between a 50 and 75 basis point hike. Over the past few weeks, economic data has remained mostly inflationary, perhaps tilting the decision closer to a 75 basis point hike than a 50 basis point hike.

One thing to note is that the next central bank meeting is not until February, prompting some speculation that the RBNZ could hike 100 basis points to ensure it does not fall behind the curve. However, in saying this, interest rate markets are not pricing in any likelihood of this.

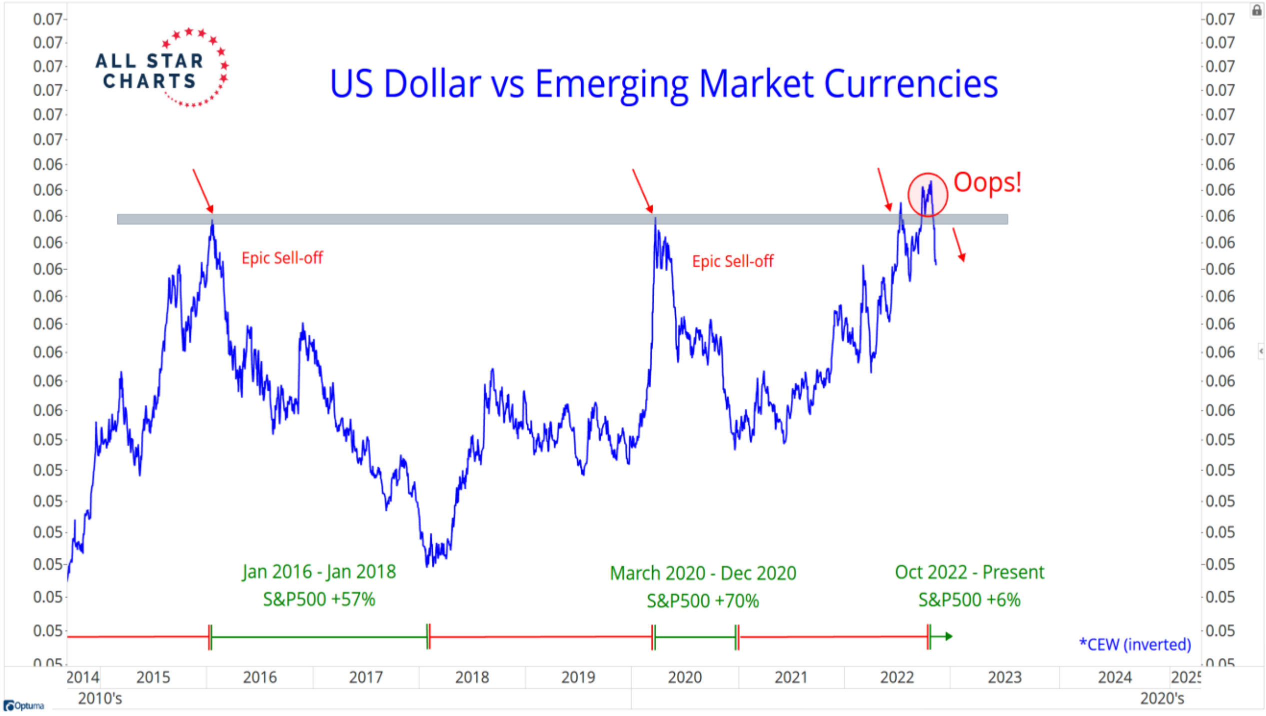
Offshore, it's a relatively quiet week with US markets closed on Thursday and Friday for Thanksgiving. Nevertheless, given it's the biggest shopping period of the year, anecdotal evidence could provide further detail on the resilience of the US consumer.

One thing of note is on Wednesday when we will see the minutes from the Federal Reserve's November meeting and look for any signs that members considered slowing the pace of interest rate increases with fears they could be weighing on the growth outlook.

And in Europe, eurozone consumer confidence and German IFO (business confidence) will likely reaffirm the struggles the continent is having amid the cost of living crisis.

Chart of the week

A weak US dollar has historically been a positive for equity markets, and if the chart below is correct, and the dollar has peaked, we could be in for a period of strength for equity markets.



Here's what we're reading

Following on from the above chart, some signs the US dollar bull run may be coming to an end - https://allstarcharts.com/the-death-of-a-wrecking-ball/

Ready for another Michael Lewis book? He spent six months following Sam Bankman-Fried, the embattled founder of crypto exchange FTX that filed for bankruptcy last week - https://theankler.com/p/hwood-ftx-frenzy-as-michael-lewis