

The Weekly Snapshot

22 May 2023

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

US equity markets had a strong week as hopes of a debt ceiling resolution and some upbeat economic data saw several indices trade to multi-month highs. The best-performing of the bunch – the NASDAQ 100 – continued its stellar start to the year, rising more than 3% over the week and taking its year-to-date gains to more than 25%.

In New Zealand, our local equity market put in a more modest performance compared to its global peers, with the NZX 50 rising about 1%, due to concerns the Budget may stoke inflation pressures.

The sizeable budget tag put upward pressure on bond yields, which saw the 10-year government bond yield rise nearly 40 basis points over the week. Interest rate markets are now pricing in a terminal Official Cash Rate (OCR) of 5.75%.

What's happening in markets

The New Zealand Budget was the focal point down under with Finance Minister Grant Robertson delivering a larger-than-expected headline spending figure highlighted by significant infrastructure spending and childcare support.

On the back of a larger-than-expected spending package, the Treasury increased its debt issuance forecast for the coming few years, which is likely to put pressure on bond prices, which could be a headwind for a domestic equity market that is interest rate sensitive.

In its economic update, the Treasury forecasts that New Zealand will avoid a recession, while it expects unemployment will rise to 5.3% and inflation will fall back to its target range by the end of 2024.

Meanwhile, in the US, the ongoing debt ceiling saga continued to play out in Washington DC, with lawmakers on both sides of the aisle sounding somewhat optimistic they can get a deal done. House Majority Leader Kevin McCarthy said he can “see a path” to a resolution as early as next week, and Senate Majority Leader Chuck Schumer echoed this sentiment, adding that Senators, who are in recess next week, should be ready to head to DC if a bill is tabled.

Although details of what a possible bipartisan deal are unknown, it appears the focus will be on a percentage cap on discretionary spending. The White House 2024 Budget is a ~9% increase from a year prior, while the Republicans are hoping to drop this number to below 5%.

After a rough patch of economic data, things improved slightly in the US with employment data and some manufacturing reports both showing mild signs of improvement. The number of Americans filing new claims for unemployment benefits fell by 22,000 last week (more than expected), this comes after a sharp rise the week prior. Meanwhile, the Philadelphia Fed manufacturing survey rebounded more than expected to -10.4 in May, up from -31.3 in April.

What's on the calendar

The Reserve Bank of New Zealand (RBNZ) meets on Wednesday, where it is expected the central bank will lift the Official Cash Rate (OCR) by 25 basis points. However, after the larger-than-expected Budget spend last week, interest rate markets moved to price in a small chance of a 50 basis point hike.

Putting the decision aside, the ensuing statement and press conference are likely to offer some insights into how much upward pressure the RBNZ believes the Budget will have on inflation, and by how much (if any) it has altered its view on monetary policy.

Earlier in the day, retail sales data for the first quarter is released. After falling in the fourth quarter of 2022, another material drop in spending could signal that the domestic economy has started to slow as households begin to tighten the screws amid higher borrowing costs.

In the US, debt ceiling news will continue to dominate the headlines as we move closer to 1 June, the day Treasury Secretary Janet Yellen said the US may run out of money to pay its bills.

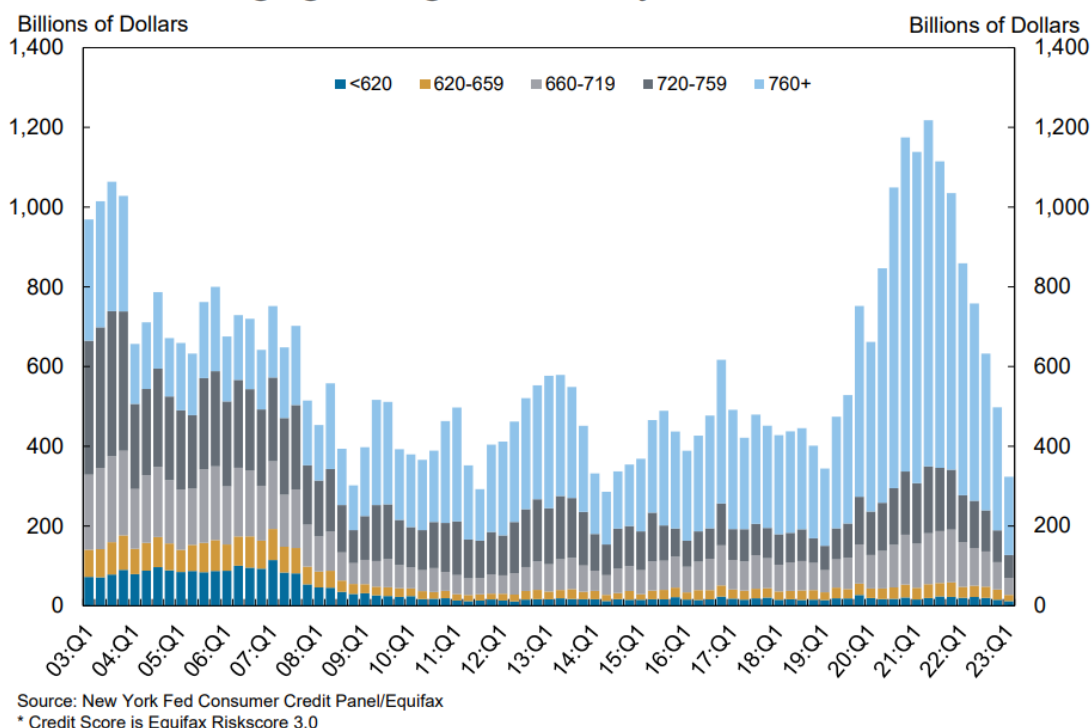
Elsewhere, on Wednesday, the Federal Reserve will release the minutes from its latest meeting, where it raised interest rates by 25 basis points. And on Friday, the April core Personal Consumption Expenditures (PCE) price index – the Fed’s preferred measure of inflation – is released where it is expected to show prices continue to ease, albeit at a slow pace.

Finally, in corporate earnings, several large retailers are scheduled to report, including Lowe’s, Dick’s Sporting Goods, Costco and Best Buy.

Chart of the week

The slowdown in the US housing market has seen the number of mortgage originations plunge, largely due to elevated house prices and higher mortgage rates.

Mortgage Originations by Credit Score*



6

Here's what we're reading

AI: "The pace of work is outpacing our ability to keep up" - <https://www.microsoft.com/en-us/worklab/work-trend-index/will-ai-fix-work>

There are a lot of pluses when you democratise finance, but it also comes with the bad - <https://www.vox.com/the-highlight/23678646/crypto-ftx-bitcoin-fraud-scams-capitalism-ethereum-sbf>

Was Brexit a mistake? - <https://eand.co/is-britain-finally-ready-to-admit-brexit-was-a-catastrophic-mistake-60b9a76a585c>

Disclaimer: This information is issued by ANZ Bank New Zealand Limited (ANZ). The information is current as at 22 May 2023, and is subject to change. This document is for information purposes only and is not to be construed as advice. Although all the information in this document is obtained in good faith from sources believed to be reliable, no representation of warranty, express or implied is made as to its accuracy, completeness or suitability for your intended use. To the extent permitted by law, ANZ does not accept any responsibility or liability for any direct or indirect loss or damage arising from your use of this information. Past performance is not indicative of future performance. The actual performance any given investor realises will depend on many things, is not guaranteed and may be negative as well as positive.