The Weekly Snapshot

24 July 2023

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

Global equity markets were mostly higher last week, which included a run of 10 straight daily gains for the Dow Jones Industrial Average – its longest streak in more than five years. The blue-chip index ended the week up more than 2%, while the S&P 500 rose about 0.7%. Tech stocks were generally weaker, which saw the NASDAQ 100 underperform, ending the week with a small loss.

In Europe, the FTSE 100 was one of the best-performing global share markets, rising more than 3%, led by strong gains from the oil and gas giants.

Closer to home, New Zealand equities struggled against the backdrop of stubbornly high inflation, with the NZX 50 ending the week down 0.6%. The sticky inflation reading saw bond yields creep higher across the board.

What's happening in markets?

The New Zealand Consumer Price Index (CPI) for Q2 highlighted a busy week in financial markets. According to Stats NZ, the CPI rose at an annual pace of 6.0% during the quarter, down from 6.7% in the first quarter of the year, and the third drop in a row.

Nevertheless, concerns remain, most notably among food items with food rising at an annual pace of 12.3%, influenced by grocery (+13.2%), fruit and vegetables (+21.1%) and restaurant meals and ready-to-eat food (+9.0 percent). Furthermore, non-tradeable inflation, inflation that is domestically generated, rose 6.6% over the quarter.

It was a relatively subdued reaction to the data, with interest rates markets still expecting the Official Cash Rate (OCR) to remain at 5.50% with no further hikes.

Across the Tasman more pressure was heaped on the Reserve Bank of Australia (RBA) after the latest employment report handily beat expectations. In June, the economy added more than 32,000 jobs and the jobless rate held at a near 50-year low of 3.5%, signs that more interest rate hikes may be needed to ease labour pressures. Incoming RBA Governor Michele Bullock said that the unemployment rate would need to rise to about 4.5% to bring the economy back into balance.

In China, GDP data for the second quarter came in short of expectations as the economy continues to flounder in its post-COVID recovery. GDP rose 0.8% over the quarter and 6.3% on an annual basis, compared to expectations for a 7.3% annual rise. A combination of surging youth unemployment, tepid retail spending and a weak housing sector looks set to stoke further government stimulus.

Finally, in corporate earnings, it was a mixed bag with large US banks continuing to report solid results thanks to growing net interest income, while the tech stocks, including Tesla and Netflix both saw their share prices fall as much as 10% last week as they reported earnings that fell short of expectations.

What's on the calendar?

All eyes will be on the US Federal Reserve meeting on Wednesday, where the central bank is expected to lift the fed funds rate by 25 basis points – this after holding the rate unchanged last month. With headline inflation dropping to 3%, and core inflation below 5%, hopes are that the Fed can engineer the much-talked-about soft landing, where inflation returns to target level and economic activity and the employment market holds up well. According to the CME FedWatch Tool, there is a 97% chance of a 25 basis point hike.

Next week we will also see the European Central Bank (ECB) and the Bank of Japan (BoJ) meet. The ECB is expected to continue with another 25 basis point hike as inflation across the continent remains well above target levels, while in Japan, the BoJ is expected to maintain its loose monetary policy and yield curve control.

It's also a busy week on the economic data calendar. In the US, the Personal Consumption Expenditures (PCE) Price Index, which is the Fed's preferred inflation gauge, will be released, while consumer confidence figures, flash PMI data and an advanced reading on Q2 GDP are also out.

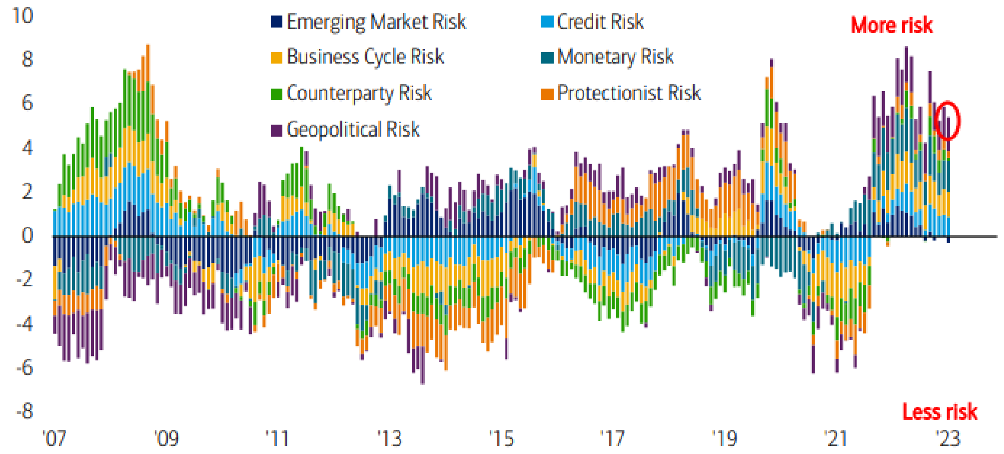
In Europe, a host of PMIs are set for release, and in Australia, we will get the latest inflation update with the Q2 CPI figures. Any figures at or above expectations will likely cement a 25 basis point hike at the August meeting.

Finally, earnings season enters one of its busiest weeks, highlighted by updates from Microsoft, Meta Platforms (parent company of Facebook), Alphabet (parent company of Google), Mastercard, Boeing and McDonald's.

Chart of the week

Equity markets have been trending higher for a decent period now, bond markets have steadied and oil prices have settled in the $65 to $75 range, but according to the Bank of America FMS Financial Market Stability Risk Indicators, there are more 'perceived' risks now than during the global financial crisis.

Chart 30: Components of the FMS Financial Market Stability Risks Indicator
At this time how would you rate these potential risks to Financial Market Stability?



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Here's what we're reading

Unemployment will need to rise to about 4.5% to get things back in balance, incoming RBA Governor. Click here.

Bond Market Outlook: Valuations Suggest Potential for Equity-Like Returns With Less Risk. Click here.

Good News-Bad News About the Economy. Click here.