The Weekly Snapshot

31 July 2023

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

Global share markets were mostly higher last week in what was a busy week for central banks. In the US, the Dow Jones Industrial Average, on Wednesday, rose for a 13th straight session, its longest winning streak since 1987, while the S&P 500 rose to a 15-month high, rising 1% over the week.

European markets were also higher, led by the Euro Stoxx 50, which traded to its highest level since 2007, and in Asia, the Shanghai Composite rose nearly 3.5%, its best weekly performance of the year.

Down under, New Zealand equities remain relatively contained, finishing off a quiet week with the NZX 50 unchanged over the week, while across the Tasman, a slower inflation report and higher oil prices helped the ASX to a 1.2% gain.

Bonds were lower across the board, meaning yields rose, after interest rate rises from the US Federal Reserve (the Fed) and the European Central Bank (ECB), while the Bank of Japan (BoJ) tweaked its monetary policy settings.

What's happening in markets?

The Fed meeting was front and centre last week, and on Wednesday, the central bank lifted the fed funds rate by 25 basis points, taking the upper band of the range to 5.50%, its highest level in 22 years.

The economy has shown remarkable resilience in the face of a super aggressive interest rate hiking cycle, and although inflation is well off its highs, it has remained above its target level for the better part of two years – a key reason why the Fed believes there could be more tightening needed.

> ***"I would say it is certainly possible that we would raise [rates] again at the September meeting if the data warranted… And I would also say it's possible that we would choose to hold steady at that meeting",*** Fed Chair Jerome Powell said.

Between now and the next Fed decision on 20 September, there are two employment reports – July and August – and one further inflation report.

In Europe, the ECB lifted its policy rates by 25 basis points, but dropped its forward guidance as the uncertainty grows. ***"There is the possibility of a hike (next time). There is the possibility of a pause. It's a decisive maybe",*** ECB President Christine Lagarde said.

Rounding off a busy week for central banks, the BoJ, in somewhat of a surprise, tweaked its ultra-loose monetary policy. While maintaining its target rate and yield curve control (YCC), the BoJ said it would conduct its YCC with "greater flexibility", meaning yields will likely trade in a slightly wider band.

Moving to economic data, the advanced reading of US Q2 GDP accelerated faster than expected, with growth rising at an annualised pace of 2.4% over the quarter, well ahead of consensus. There was a strong rebound in business spending, which rose at an annualised pace of 7.7%, while consumer spending remained resilient against the backdrop of higher borrowing costs.

And in inflation data, the US personal consumption expenditures (PCE) price index, the Fed's preferred measure of inflation, dropped to its lowest level in about two years with annual prices rising at 4.1%, while in Australia, inflation rose at a slower rate than expected (6%), reducing the odds of an interest rate hike by the Reserve Bank of Australia (RBA). Despite the slower-than-expected reading, rental prices in Australia rose at their fastest quarterly pace in 35 years.

What's on the calendar?

It's a very busy week ahead on the economic data calendar, beginning in New Zealand with the Q2 employment report. With the economy slowing, fears are that it has begun to flow into the labour market. Nevertheless, the labour market is at a record-tight level, and it is unlikely to see a significant rise in unemployment just yet.

Employment data will also be front and centre in the US with July's nonfarm payrolls report. The resilience of the US labour market continues to surprise many, with fears ongoing strength may keep pressure on wage prices, leading to further tightening by the Fed. It is expected that the economy added somewhere around 180,000 jobs in July.

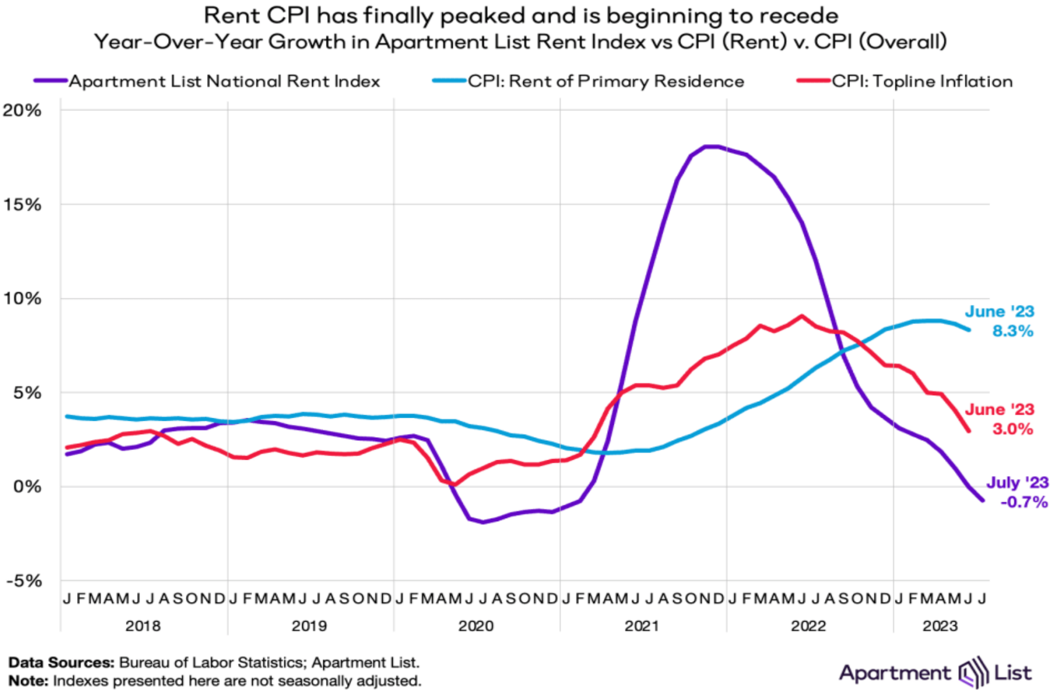
Also in the US, several PMI (Purchasing Managers' Index) reports will give further details on the underlying economy and whether it is positioned for the so-called soft landing.

In central bank news, the Bank of England (BoE) is expected to lift its key interest rate again, while in Australia, the odds of a hike from the RBA have dropped to ~25% according to interest rate markets.

Finally, corporate earnings see two of the largest companies in the world report – Apple and Amazon. Both companies tend to provide some good information on consumer spending, which makes up about two-thirds of the US economy.

Chart of the week

In another good sign for inflation, year-on-year national rental prices fell for the first time since February, according to the latest Apartment List National Rent Report. On a monthly basis, rents are still ticking higher, but the pace of growth is slowing, suggesting a rental peak in this cycle may have been hit.



Here's what we're reading

Should we be targeting 2% inflation? Click here.

Despite a good period for equity markets, investors are still scared. Click here.

IMF says Bank of Japan should move away from YCC. Click here.