The Weekly Snapshot

4 December 2023

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

Share markets continued their good run last week, with several indices in the US recording their fifth-straight week of gains, including the Dow Jones Industrial Average, which topped 36,000 for the first time since early 2022. Elsewhere, the S&P 500 rose 0.8%, while the NASDAQ 100 rose about 0.1%.

New Zealand equities, which have underperformed of late, had a strong week, with the NZX 50 rising 1.3%. Its performance was hindered slightly on Thursday after a relatively hawkish Reserve Bank of New Zealand (RBNZ) meeting.

In fixed interest markets, global bonds continued their stellar run, with yields falling to multi-month lows. In the US, the 10-year government bond closed around 4.2%, its lowest level since early September, while European government bond yields were also much lower over the week. However, the hawkish RBNZ meeting saw the New Zealand 10-year government bond finish the week relatively unchanged.

What's happening in markets?

On Wednesday, the RBNZ, as expected, left the Official Cash Rate (OCR) at 5.50%. However, the Committee struck a relatively hawkish tone, saying demand had not subsided as much as they had hoped, and that elevated core inflation means further hikes cannot be ruled out.

"*In New Zealand, demand growth has eased, but by less than anticipated over the first half of 2023 in part due to strong population growth. The OCR will need to stay restrictive, so demand growth remains subdued, and inflation returns to the 1 to 3 percent target range*", the RBNZ said in its statement.

It then added: "*The Committee is confident that the current level of the OCR is restricting demand. However, ongoing excess demand and inflationary pressures are of concern, given the elevated level of core inflation. If inflationary pressures were to be stronger than anticipated, the OCR would likely need to increase further*".

Adding to the hawkish tone was news that the central bank had lifted its neutral rate – the rate it expects the OCR to peak – to 5.69%, suggesting another rate hike is more likely than not. Despite this, interest rate markets did not move to reflect this view, with the next move priced in being a rate cut in the middle of 2024.

In the US, the Fed's preferred measure of inflation, the core Personal Consumption Expenditures (PCE) index, which excludes volatile gas and food prices, rose 0.2% in October and 3.5% from a year ago. When including gas and food prices, the PCE index was unchanged over the month – the first in more than a year that prices did not rise on a monthly basis.

The PCE reading comes after the CPI came in lower-than-expected at 3.2% for October, a sharp drop from the 3.7% rate from September.

Bond markets got a further boost when Fed Governor Christopher Waller hinted that the Fed's rate-hiking cycle was over, and rate cuts are on the horizon. *"I am increasingly confident that policy is currently well positioned to slow the economy and get inflation back to 2%",* he said during a speech at the American Enterprise Institute on Tuesday. Waller then added that if inflation continues to decline "*for several more months (three to five), we could start lowering the policy rate just because inflation is lower*".

Then on Friday, Fed Chair Jerome Powell pushed back slightly, saying that talks of rate-cuts are premature, but he did say that policy is "well into restrictive territory". The market ultimately took his comments as dovish, with bonds and equities rallying on Friday.

What's on the calendar?

This week, all eyes will be on Friday's US jobs report with signs the labour market is slowing. After October's report came in on the softer side – including some downward revisions – another weaker report will likely see interest rate markets shift to further reduce the chance of an interest rate hike by the Fed.

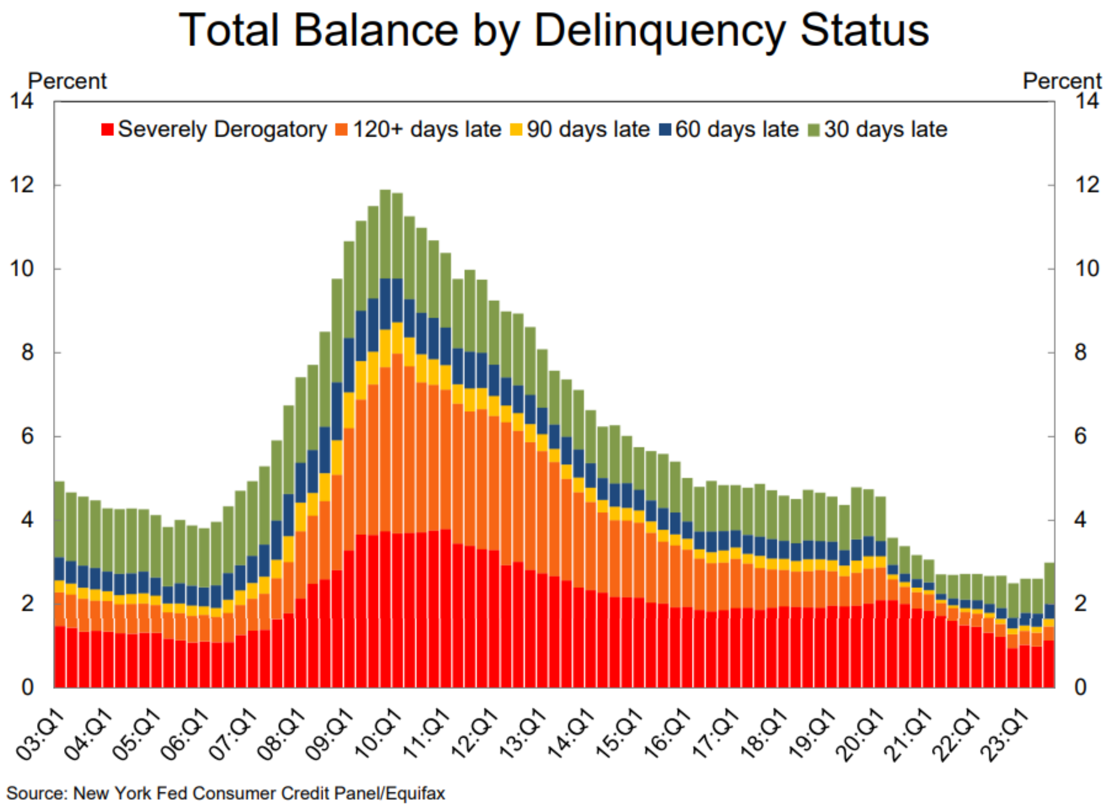
Elsewhere, the Reserve Bank of Australia (RBA) meets this week, and despite it restarting its rake-hiking cycle last month, and some hawkish comments from Governor Michele Bullock, it is expected to leave its policy rate unchanged at 4.35%. These comments, from a policy standpoint, were probably offset by some weaker retail sales figures and a slower than expected October monthly CPI indicator.

On Wednesday, a day after the RBA meeting, third-quarter GDP figures are released where it is expected that the economy continued to grow, but at a more moderate pace, Expectations are that annual GDP dipped below 2%.

Finally, we'll get an update on the Chinese economy and global demand with PMI and trade data released on Tuesday and Thursday respectively.

Chart of the week

Last week's New York Fed Quarterly Report on Household Debt and Credit showed credit card delinquencies in the third quarter jumped to their highest level in more than two years. This is adding to the notion that consumers' excess savings are starting to dry up and could be a lag on the economy in 2024.



Here's what we're reading

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Most Americans are better off financially now than before the pandemic. [Click here].