The Weekly Snapshot

5 December 2022

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

Global equity markets finished the week higher, thanks mostly in part to a strong Wednesday session in the US that saw several indices gain more than 3% as hopes of a 'Fed pivot' grew after some soft rhetoric from the Fed Chairman. It was growth stocks that benefited from the potential slowing in monetary tightening with the NASDAQ 100 ending the week up just over 2%, while the S&P 500 rose about 1%.

Bond markets also reacted favourably to the comments with yields on most bonds declining. In the US, the 10-yield government bond yield hit a 10-week low, falling about 20 basis points and closing below 3.5%.

New Zealand equities also found some support against the back of lower bond yields, with the NZX 50 rising more than 2%, finishing at its highest level since early September.

What's happening in markets?

The big market-moving news came on Wednesday when Jerome Powell, Chairman of the US Federal Reserve, indicated that the time to slow the pace of interest rate hikes might be near. The central bank has lifted the fed funds rate by 75 basis points at four successive meetings, which has weighed on bond and equity markets, so Wednesday's comments provided relief for investors.

> ***"It makes sense to moderate the pace of our rate increases as we approach the level of restraint that will be sufficient to bring inflation down… The time for moderating the pace of rate increases may come as soon as the December meeting".*** – Powell said.

Nevertheless, Powell did say that while the pace of hikes could slow, monetary policy would have to remain restrictive because there's "a long way to go in restoring price stability".

It was a busy week on the economic data calendar, which was mixed news for policymakers. The employment report showed the US economy added 263,000 jobs in November, but of more concern was average hourly earnings, which rose 0.6% over the month (more than double most forecasts) and 5.1% year-on-year, also above consensus. Wages and the tight labour market continue to be the thorn in central bankers' side, with bargaining power still with workers putting upward pressure on wages.

Meanwhile, on a more positive note for policymakers was the Personal Consumption Expenditures (PCE) price index, which rose at an annual pace of 6% in October, down from 6.3% the prior month and below expectations. And the core PCE Price Index, the Federal Reserve's preferred gauge of inflation, declined to 5% from 5.2%.

Australian policymakers also got some good news with monthly CPI indicator for October falling to an annual pace of 6.9%, below consensus and down from 7.3% the month prior. The Reserve Bank of Australia (RBA), which meets this week, had said at a prior meeting that it expects inflation to peak closer to 8%.

And in New Zealand, the ANZ Business Outlook survey pointed to tougher times ahead with headline confidence falling to -57, while inflation expectations hit a new high and residential construction intentions plummeted to -90.

What's on the calendar

As stated earlier, the RBA meets on Tuesday, where it is expected to raise its key interest rate by another 25 basis points to 3.1%. The RBA has been slow to the tightening cycle and taken a more gradual route; a 25 basis point hike will be the third in a row after a succession of 0.5% moves. The central bank is hoping this cautious approach pays off, and inflation will start to moderate, which soften the blow for mortgage holders.

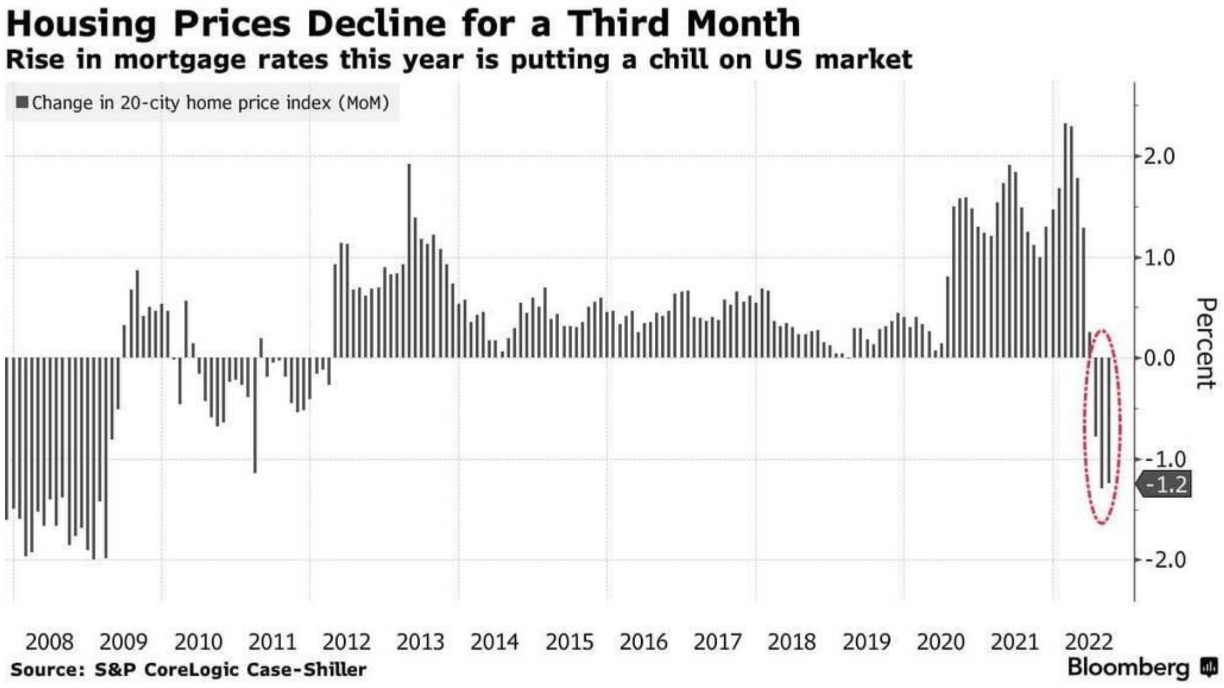
Also in Australia, GDP data for the second quarter is expected to show the economy continued to grow at a reasonable pace, buoyed by elevated commodity prices that have benefited the resources sector for most of 2022.

Elsewhere, there is some economic data in the US to watch, including the ISM non-manufacturing PMI index, the Producer Prices Index (PPI), and the Michigan consumer sentiment survey.

Finally, the Bank of Canada is expected to raise its policy rate by at least 25 basis points (some expect 50) as it deals with annual inflation around 7%. Much like New Zealand, higher interest rates are weighing on its housing market with potential widespread consequences as it has one of the highest household debt-to-income ratios in the world.

Chart of the week

House prices are becoming a concern for most developed countries as borrowing costs soar. And in the US, house prices also appear to have peaked with the Case-Schiller 20-city index declining for the third month in a row – the first time in more than a decade.



Here's what we're reading

A year of pain: investors struggle in a new era of higher rates - https://www.ft.com/content/c93f3660-821f-458b-ae0f-23ac05b8f03f

If it feels like the UK is in a tumultuous period, it probably is. What's behind the UK's economic mess? The war, British politics and the 'Brexit impact' - https://www.grid.news/story/global/2022/11/28/brexit-impact-becomes-clear-as-britains-economy-slows/