

The Weekly Snapshot

6 March 2023

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

Fixed interest markets were in focus last week as yields on most government bonds moved sharply higher as investors prepared for the 'higher for longer' scenario for interest rates. This move came after recent inflation surprises to the top side raised concerns that higher prices may be harder to quash than central banks first thought.

In Europe, the 10-year German government bond yield surged to a decade-high around 2.75%, while it was the same story in France and Spain with their 10-year equivalents hitting their highest levels in about 10 years. Meanwhile, in the US, the 10-year yield traded through 4%, while the more interest rate-sensitive two-year bond yield climbed to a 15-year high, closing in on 5%.

Yields did drift lower on Friday but were well above where they began the week.

Given the move in bonds, equities had a surprisingly good week, especially Friday, where several indices posted daily gains of more than 1%. For the week, the S&P 500 ended a three-week losing streak to finish up about 2%, while the NASDAQ 100 rose about 2.5%. And in Europe, the Euro Stoxx 50 was one of the best-performing global share markets, rising nearly 3%.

Down under, equity markets underperformed with the NZX 50 and ASX 200 ending the week lower.

What's happening in markets?

European inflation data was the main driver last week with many countries reporting hotter-than-expected numbers pointing to little let-up in soaring price pressures, sending yields higher and increasing European Central Bank (ECB) interest rate expectations for the year ahead.

In Germany, annual inflation rose to 8.7%, while in two of Europe's biggest economies – Spain and France – inflation also increased from the prior month and came in ahead of expectations as energy and food prices remain stubbornly high.

All this has seen interest rate markets price in a full 150 basis points of hikes from the ECB this year, which would put its key interest rate at 4%, the highest level in more than a decade.

In the US, consumer confidence fell for the second straight month according to the Conference Board as inflation and concerns about a slowing economy weighed on Americans. The consumer confidence index dipped to 102.9 in February, down from 106 in January.

According to the report, the decrease reflected significant drops in confidence for households aged 35 to 54, and although 12-month inflation expectations fell to 6.3%, from 6.7%, there are signs Americans are starting to clamp down on spending. "Fewer consumers are planning to purchase homes or autos and they also appear to be scaling back plans to buy major appliances. Vacation intentions also declined in February", [the report said](#).

In New Zealand, economic data was on the softer side with retail sales falling 0.6% for the three months to 31 December 2022, putting them 4% lower on the year as signs consumers may be clamping down as household budgets are becoming stretched. Meanwhile, business confidence improved slightly, but pessimism remains with a net 43% of people expecting the economy to deteriorate – up nine points from January.

What's on the calendar

Coming off a relatively quiet week, things are a little busier this coming week with the focus on Friday's US employment report. The tight labour market and sticky wages have been the thorn in the side of the Federal Reserve as it attempts to slow inflation. And after a whopping 517,000 jobs were added in January, another topside surprise on total job additions and wages could see further upside to bond yields.

Market expectations are for a further ~200,000 jobs added to the economy and for the unemployment rate to hold steady at a historic low of 3.4%, while, average hourly earnings, which will garner most of the attention, are expected to tick higher by 0.3%, over the month.

Elsewhere, there are central bank meetings in Australia, Canada and Japan, with the Reserve Bank of Australia (RBA) expected to raise its key interest rate by 25 basis points, while in Canada and Japan, interest rates are expected to stay where they are.

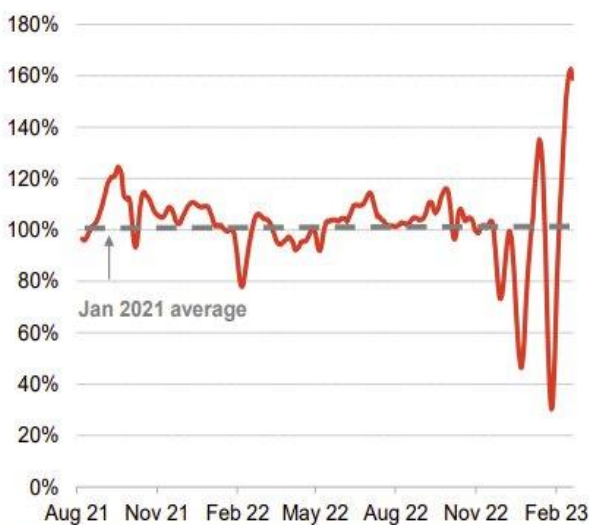
Finally, Fed Chair Jerome Powell will testify in front of Congress on Tuesday where he may field questions on inflation and monetary policy.

Chart of the week

The re-opening in China appears to be gaining momentum with a sharp increase in road congestion and subway traffic, which should help a rebound in growth and activity.

Road congestion

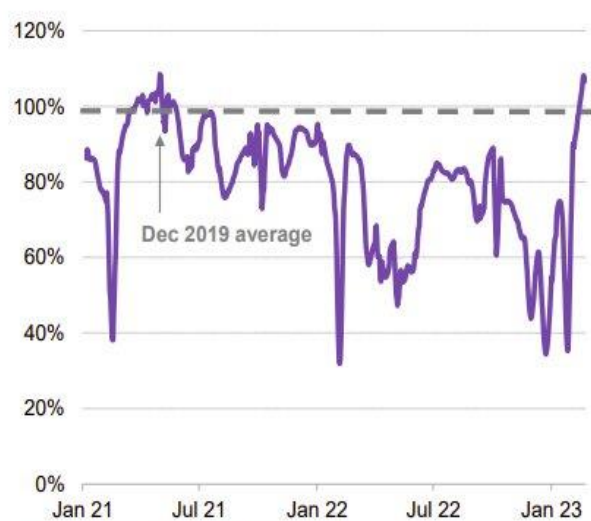
Peak congestion index



Source: Baidu, BloombergNEF. Note: The chart shows seven-day moving averages. Last updated on February 23, 2023.

Subway rides

Rebased Dec 2019 = 100%



Source: BloombergNEF, daily Weibo update from each city's metro company. Note: The chart shows seven-day moving averages. Last updated on February 22, 2023.

Here's what we're reading

It seems there's a consensus that there will be a recession in the coming 12-18 months. This is a good reminder that not all 'expected recessions' happen - <https://finance.yahoo.com/news/all-the-recessions-that-didnt-happen-210247393.html>

And speaking of a recession, here's FiveThirtyEight with: "Are we headed for a recession or not"? - <https://fivethirtyeight.com/features/are-we-headed-for-a-recession-or-not/>

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