# The Weekly Snapshot

## 9 October 2023

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

Bond markets continued to attract the most attention last week with yields surging higher (bond prices declining). In the US, the 10-year government bond yield rose to a 16-year high near 4.9%, while the longer-dated 30-year government bond yield hit 5% for the first time since August 2007.

New Zealand bonds traded in a similar fashion with the local 10-year government bond yield rising as much as 25 basis points to 5.57%.

By the end of the week, global bond yields had fallen off their highs, but most were still well higher on the week.

Equity markets were also volatile, but a strong Friday session saw the S&P 500 flip from red to green for the week, finishing up about 0.5% - the gain ended a run of four weekly declines. Meanwhile, the NASDAQ 100 rose more than 1.5%. In New Zealand, the NZX 50 was mostly unchanged, while the ASX 200 fell 1.3%, weighed down by a fall in oil prices.

**What's happening in markets?**

Despite the bond market volatility, Friday's US employment report took centre stage with the economy adding a whopping 336,000 jobs in September, well ahead of expectations and the biggest monthly gain since January. The unemployment rate rose to 3.8% from 3.7%, while average hourly earnings grew at an annual rate of 4.2%, slightly below forecasts. At a sector level, leisure and hospitality, government, and healthcare saw the biggest job gains.

The report will add pressure to the US Federal Reserve (the Fed), which is hoping that the cumulative tightening to date has been enough to cool the economy and bring inflation back to its target range.

Meanwhile, in New Zealand, the Reserve Bank of New Zealand (RBNZ), as expected, left the Official Cash Rate (OCR) unchanged at 5.50%. The Committee warned that rising energy prices could add to inflationary concerns but said policy tightening over the past 18 months is starting to do its job.

"*Interest rates are constraining economic activity and reducing inflationary pressure as required. Demand growth in the economy continues to ease. While GDP growth in the June quarter was stronger than anticipated, the growth outlook remains subdued. With monetary conditions remaining restrictive, spending growth is expected to decline further*", the RBNZ said in its statement.

And across the Tasman, the Reserve Bank of Australia (RBA) left its key policy rate unchanged, but RBA Governor Michele Bullock did not rule out further interest rate increases. "*Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will continue to depend upon the data and the evolving assessment of risks*", she said.

**What's on the calendar?**

It's election week in New Zealand, with current polling showing the right bloc of National and ACT favoured to take power, but there is an increasing likelihood that the two parties will need the support of New Zealand First to reach the required 61 seats. The latest 1News-Verian poll, released Wednesday, had National at 36%, Labour at 26%, The Greens at 13%, ACT at 10%, NZ First at 6% and Te Pāti Māori at 2%. This would give National and ACT a combined 59 seats, two shy of the required 61 seats. Then on Friday, a Taxpayers Union Curia Poll gave National and ACT a combined 58 seats.

Overseas, it's a relatively busy week on the economic data front, headlined by US inflation figures for September. Coming off a hot jobs report, concerns for policymakers will be if prices begin to rebound, especially as the Fed has said it is in 'data-dependent' mode. A higher-than-expected inflation report would increase the probability of an interest rate hike in November. As of 7 September, the CME FedWatch Tool, which tracks fed funds pricing, shows a 13% chance of a 25 basis point hike in November.

Also in the US, Producer Price Index (PPI) data, Michigan consumer sentiment figures and the minutes of the September Fed meeting are released.

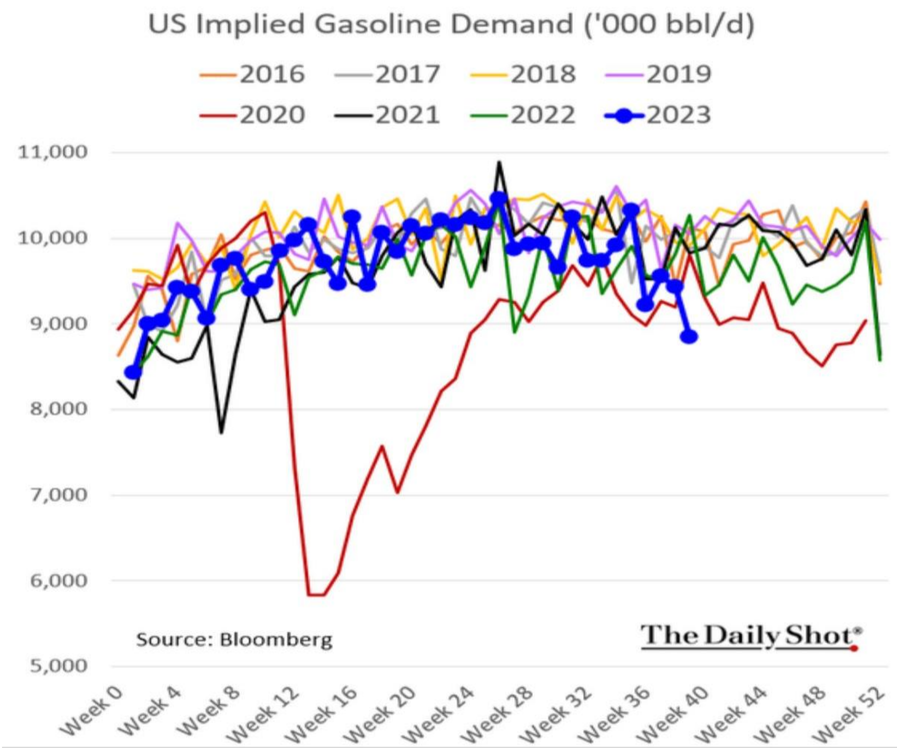
In China, the monthly slew of economic data is released, which includes CPI, PPI, and trade figures. Chinese data remains at the forefront of investors' minds as fears the world's second-largest economy is struggling, which could have a flow-on effect on its major trading partners.

Meanwhile, earnings season kicks off this week with banks, as usual, getting things started. Those reporting this week include JPMorgan Chase, Wells Fargo, Citigroup, and PNC Financial Services. With deposits falling, credit card delinquencies on the rise and corporate bankruptcies up (according to Epiq Bankruptcy, a provider of bankruptcy filing data) bank earnings should provide a good indication of the underlying health of the US economy.

Finally, the geopolitical unrest in the Middle East will be on our radar with concerns that if the conflict spreads further it could put upward pressure on oil prices, which would be inflationary and could weigh on growth assets.

**Chart of the week**

There has been a notable decline in US implied gasoline demand over the past couple of weeks, which has seen it hit seasonal levels below 2020. This may partly explain the sharp decline in oil prices last week and perhaps a sign the US economy is starting to cool.

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