The Weekly Snapshot

23 August

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

It was a mixed week for equity markets with indices in the US fishing lower and retreating off all-time highs, while down under, after a volatile week, the NZX 50 gained nearly 1.5% and traded to its highest level in six months.

Bond yields in most developed markets ended lower with the New Zealand 10-year government bond ending down 10 basis points, one of the biggest movers of the week.

What's happening in markets

Last week was highlighted by the news that the Delta variant of COVID-19 had made its way into the community in New Zealand. The news came at a precarious time, just a day before the Reserve Bank of New Zealand meeting.

The RBNZ ended up leaving the Official Cash Rate unchanged, saying the decision was made "in the context of the Government's imposition of Level 4 COVID restrictions on activity across New Zealand". Before the outbreak, it had been expected the OCR would be lifted by at least 25 basis points.

Despite the 'no-change', the broader message from the RBNZ was that it expects to raise interest rates, and at a much faster pace than it previously said. The RBNZ sees the OCR being over 1.5% by the end of 2022, whereas in its prior forward guidance it had said it expects the OCR to begin going up from the middle of the year and not reach 1.5% until the latter parts of 2023.

Across the Tasman, the COVID-19 situation continued to worsen with cases in New South Wales topping 800 over the weekend. The deteriorating outlook was summed up in the minutes of July's Reserve Bank of Australia meeting, where policymakers said they are prepared to act if the economic outlook worsens. "The Board would be prepared to act in response to further bad news on the health front should that lead to a more significant setback for the economic recovery", the minutes said.

Elsewhere, in the US, in a Friday interview, Dallas Fed President Rob Kaplan, who had called for the Fed to quickly start its taper, said he may have to rethink this position with the Delta variant spreading across the country. He said if the variant is having a "more negative effect" it may cause him to adjust his views "somewhat from ones" he had previously stated.

What's on the calendar

This week, all eyes will be on the annual Jackson Hole meeting (held virtually), which has been the site for several significant policy decisions or rhetoric over the years, including further rounds of quantitative easing in the US during Ben Bernanke's time as Fed Chair.

This year, the main focus will be the determination of when the Fed begins to taper its bond-buying programme. With most expecting the taper to begin near the end of 2021, clues on the central bank's views on the worsening COVID-19 situation and the labour market will be key to assess how soon they could begin scaling back their bond purchases.

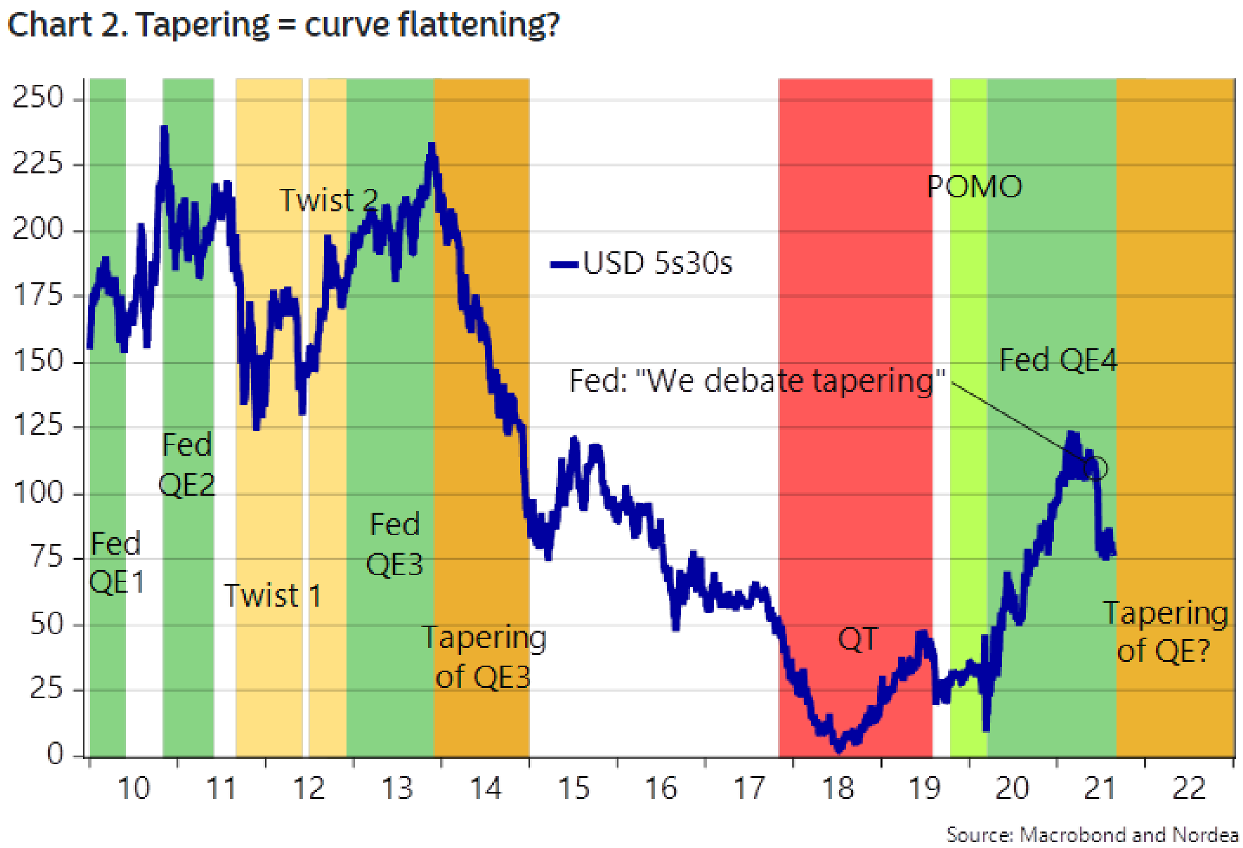
Staying in the US, some retailers are set to report earnings this week, which will give a good look into the state of consumer spending. Of note are Best Buy, Nordstrom, Urban Outfitters and Abercrombie and Fitch.

And in US economic data, the second estimate of Q2 GDP and core PCE prices will be closely watched.

Down under, retail sales in both New Zealand and Australia are on the calendar, however, the main focus will be the daily COVID-19 case numbers and the outlook for further lockdowns, of which we will get on Monday at 4pm when the New Zealand Government will announce any changes to the country's lockdown situation.

Chart of the week

When the Fed began to taper in 2013/2014, their yield curve flattened substantially. However, with the Fed set to begin to taper, at least according to most forecasts, the yield curve has already flattened substantially. Does it have more to go, or has the market been front-running the taper trade? Food for thought.



Here's what we're reading

With around 10 million job openings in the US, wages are increasing at a rapid pace, but so is inflation. Is this a permanent shift in bargaining power for labour markets, or just a reset? - https://awealthofcommonsense.com/2021/08/inflation-vs-wages/