

The Weekly Snapshot

13 December

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

Global equity markets rebounded last week from the Omicron-scare sell-off with some indices recording their best weekly gains in more than six months. In the US, the S&P 500 and NASDAQ 100 gained nearly 4%, while in Europe several indices finished up around 3%.

Australasian equities were helped by offshore momentum with the NZX 50 and ASX 200 both gaining around 1.5%.

The broad-based optimism saw bond yields in most countries edge higher.

What's happening in markets

The strong week for global equities came as concerns around the severity of the Omicron virus seemed to lessen when US infectious-disease expert Dr. Anthony Fauci said early data, although some anecdotal, appeared to show the new variant to be less acute than first thought. "It might be and I underscore might be, less severe as shown by the ratio of hospitalisations per number of new cases", Fauci said.

Meanwhile, in economic data, inflation continued to be the focal point with US CPI rising at a year-on-year rate of 6.8%, the fastest pace since 1982. Food, energy and shelter prices continued to be the main driver, putting pressure on the White House as rising prices eat into wage growth.

Elsewhere, the US Senate adopted a rare bipartisan deal that would allow Democrats to raise the debt ceiling with a simple majority (it usually requires at least 60 votes in the 100-seat Senate). The bill now paves the way for Democrats to actually raise the debt ceiling to avoid defaulting on its debt.

In central bank news, the Reserve Bank of Australia left its cash rate at a record-low 0.1% and left its bond purchases at A\$4billion a week until at least February. The RBA appears to have dodged the inflation conundrum, for now at least, with CPI hovering at the top end of its target range, meaning they can take a more cautious approach to normalising monetary policy.

Finally, the People's Bank of China announced a cut in the required reserve ratio (RRR) of banks and unveiled further easing measures as its economy slows and concerns around the property sector remain. Much like Australia, inflation has not become an obstacle for China, so loosening monetary policy to support growth is feasible, for now.

What's on the calendar

It's one of the biggest weeks on the economic calendar with the US Federal Reserve, European Central Bank and Bank of England all set to meet and are all facing the same conundrum: above-average inflation.

The Fed is set to announce a faster taper of its asset purchases that have been aiding economic growth and stability through the pandemic. However, with inflation running at a 40-year high, the central bank appears to have conceded that it is more than a short-term worry and will wind down the bond-buying programme to put themselves in a position to raise interest rates should inflation remain elevated into 2022.

Meanwhile, in Europe, the ECB will address its bond-buying programme (Pandemic Emergency Purchase Programme, or PEPP), where recent comments from ECB President Christine Lagarde suggest it will be wound down by March 2022 amid decade-high inflation rates. However, the risk for the ECB in ending its asset purchases in a relatively short time frame is it could create untoward volatility with the PEPP making up €60billion of the €80billion monthly asset purchases. Furthermore, the ECB will have to weigh the current wave of COVID-19 that has seen several countries re-introduce partial lockdowns, which are sure to weigh on economic activity.

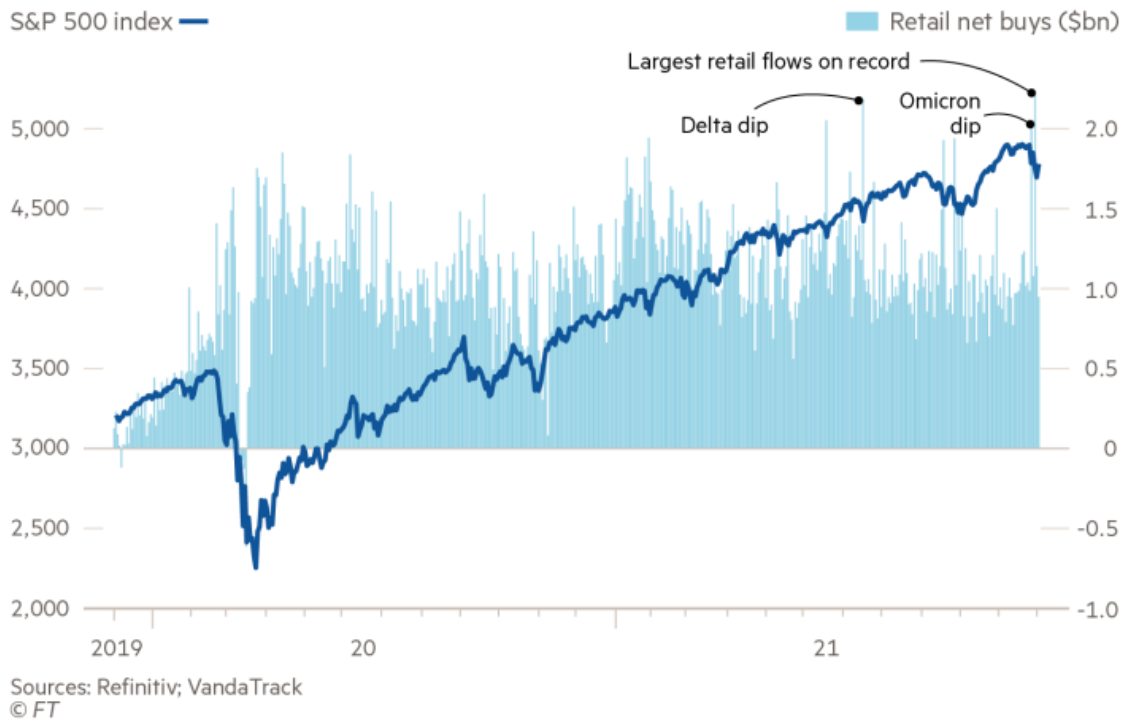
And in the UK, the BoE are expected to end its £875billion bond-buying programme with the core debate around whether or not it will raise interest rates. The central bank will be weighing the improving economic data and inflation pressures versus the economic impact of the Omicron variant.

Finally, down under Q3 GDP data for New Zealand is scheduled for release where it is likely to show the economy contracted with Auckland spending most of the quarter in lockdown.

Chart of the week

Retail investors were quick to jump on the Omicron-induced dip.

US retail investors rush to buy Omicron-triggered dip



Here's what we're reading

An in-depth look at what the rise in US house prices have done to some key housing metrics - <https://www.corelogic.com/intelligence/homeowner-equity-insights/>

The story of the Welshman who is fighting the dump to let him dig up his computer. Why? – because it has half a billion worth of bitcoin stored on it - <https://www.newyorker.com/magazine/2021/12/13/half-a-billion-in-bitcoin-lost-in-the-dump>

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