The Weekly Snapshot

19 July

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

Several global equity indices ended three consecutive weeks of gains to finish lower as inflationary concerns weighed on sentiment. In the US, the S&P 500 ended the week down around 1%, while the NASDAQ fell nearly 2%.

Meanwhile, in New Zealand, the prospect of higher interest rates after the central bank meeting saw the NZX 50 end the week lower.

What's happening in markets

New Zealand was front-and-centre last week with the Reserve Bank of New Zealand announcing it would be ending its bond-buying programme. The RBNZ became the first developed world central bank to end its accommodative monetary policy in the post-pandemic economy.

The significant shift in policy saw the market price in a ~60% chance of an interest rate hike next month. The immediate move saw the 10-year government bond yield gain around 7 basis points, while the New Zealand dollar rose around 1% versus the US dollar (these gains were trimmed by the end of the week).

The change in policy comes as the domestic economy is showing signs of over-heating with inflation expectations surging and labour shortages in certain sectors, which policymakers said could jeopardise its mandate.

> ***"The Committee agreed that a 'least regrets' policy now implied that the significant level of monetary support in place since mid-2020 could be reduced sooner, so as to minimise the risk of not meeting its mandate".*** – RBNZ statement

Also in New Zealand, inflation data for the second quarter confirmed the pricing pressures with CPI rising 1.3% for the second quarter and 3.3% year-on-year, the fastest pace in more than 10 years. The faster-than-expected CPI saw the probability of a rate hike in August jump to more than 80%.

Staying with inflation, US CPI continued to run at multi-year highs with June inflation rising at a year-on-year rate of 5.4%. Still, policymakers reiterated they believe the inflation to be short-lived, but did acknowledge inflation was higher than expected. Federal Reserve Chair Jerome Powell told the House Financial Services panel that inflation was faster than the central bank was "hoping to see" and Treasury Secretary Janet Yellen said in an interview she expects to see "several more months of rapid inflation".

Meanwhile, Friday's preliminary University of Michigan Consumer Sentiment unexpectedly dropped to a five-month low with inflation concerns eroding confidence in the economic recovery. "Consumers' complaints about rising prices on homes, vehicles, and household durables has reached an all-time record", the survey director, said in a statement.

In earnings news, several large-cap banks reported earnings last week, which were mostly positive, including:

- JPMorgan beat estimates driven largely by the release of loan losses set aside last year.
- Morgan Stanley announced strong earnings thanks in part to better-than-expected numbers from its wealth management and investment management areas.
- Citigroup released more than US$1 billion in loan losses set aside, but saw a drop in credit card loans and fixed interest trading.

Finally, the COVID-19 situation in Australia continued to worsen with daily cases in NSW rising above 100, which has seen the state going into a strict lockdown, which is expected to cost the economy billions of dollars.

What's on the calendar

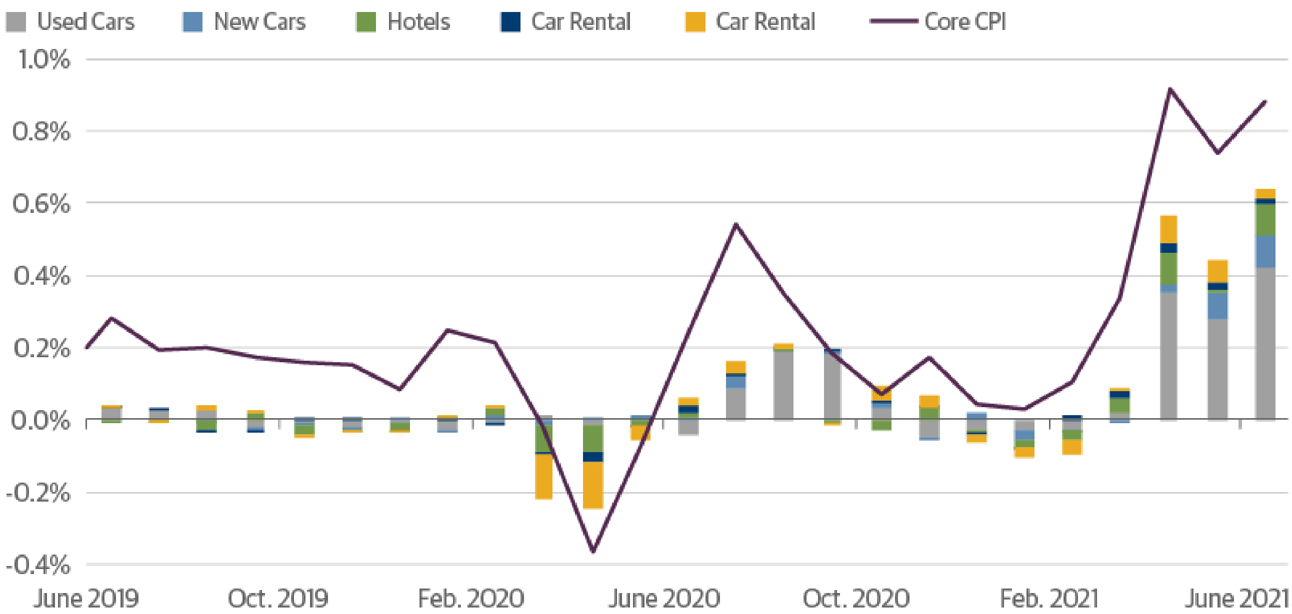
It's a relatively quiet week on the economic data calendar with most attention on second-quarter earnings. This week, several large airlines will report with other notables being Netflix, Coca-Cola, and Johnson & Johnson.

In Europe, the European Central Bank meets this week where it is expected to deliver more information around the central bank's policy path. This decision to update its policy path was unanimously voted for last week. However, this does not mean the central bank will dial back its heavily accommodative stance, it simply voted for an update to its forward guidance.

Finally, the RBA will release the minutes from its latest meeting on Tuesday.

Chart of the week

Investors and policymakers who believe inflationary to be transitory would point to the below chart and this snippet: "64 of the 88 basis point month-over-month increase in core CPI was due to new and used autos, car rentals, hotels, and airfares. By far the largest driver among those categories was used car prices, which grew 10.5 percent over the month and contributed 42 basis points to the month-over-month core CPI print".



Here's what we're reading

The hottest commodity of 2020 was, arguably, wood. Lumber futures traded from around $350 to more than $1,700 in less than a year. Since their peak in May, prices have declined nearly 70%. So what happened during the crazy year or so in the lumber market - https://www.vice.com/en/article/88nvva/lumber-shortage-2021-explained