The Weekly Snapshot

14 March

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

Global equity, bond and commodity markets remained volatile as the Russia/Ukraine conflict continued into its third week. The major development was the US and UK announcing bans on Russian oil imports. This initially sent global oil prices sharply higher, worrying investors because the decision looks set to add to already high global inflationary pressures. Oil hit a high of US$130 a barrel, but finished the week below US$110. Other metal prices sky-rocketed, with the price of nickel almost tripling over the week.

International equity markets fell, with key US markets sharply lower. The S&P 500 Index fell 2.8%, with energy – unsurprisingly - the only sector to deliver gains over the week. The tech-heavy NASDAQ Index meanwhile fell 3.6%. Australian and New Zealand markets also fell, down 0.6% and 2.6% respectively.

Surprisingly European shares finished the week higher. In fact, on Tuesday, Germany's DAX Index gained almost 8% in one day. Over the week the index was up 3.9%. Its gains could be put down to the subsequent falling-off in oil prices, and hopes that diplomacy could somehow bring an end to the conflict. The German market's gain was despite the European Central Bank announcing an early end to its stimulus programme.

Bond markets similarly lost ground over the week. While bonds typically offer a safe haven during times of market uncertainty, the prospect of higher inflation due to surging commodity prices has seen bond prices fall. High inflation usually means interest rates will be moved higher – and bonds don't do well in that environment. The yield on the US 10-year government bond rose 27 basis points to 1.99%, while the yield on the equivalent New Zealand bond rose 21 basis points to 2.99%.

What else is happening in markets?

Inflation in the US continued to surge in February, pushing the annual rate of price increases to 7.9%. It's the biggest year-on-year increase since 1982, and up from the 7.5% rate reported in January. Rising costs for energy, food and shelter (rents) have driven the gains.

The Russia-Ukraine conflict is only adding to the world's problems, driving a surge in energy and other commodity prices. According to the US inflation report, energy prices jumped 3.5% in February due to the jump in gasoline prices, which are now up 25% over the year.

Most economic commentators expect the increase in energy costs (and other commodities) to push US inflation even higher in March. This will put even more pressure on the US Federal Reserve to raise interest rates to rein in inflation when it meets later this week.

While the pressure is on the US Federal Reserve to start raising rates, during the week the European Central Bank (ECB) kept interest rates unchanged (leaving its benchmark refinancing rate at zero per cent). While it is unlikely to raise interest rates given the uncertainties around the Russia/Ukraine conflict, it surprised the market when it signalled an earlier end to its pandemic-era stimulus, suggesting it may wrap up its bond-buying programme in the third quarter of this year if "economic data allows".

The ECB is clearly worried about inflation, especially given the region's reliance on Russian energy and sky-rocketing global energy prices. ECB president, Christine Lagarde said that the war will have "a material impact on economic activity and inflation through higher energy and commodity prices, the disruption of international commerce and weaker confidence".

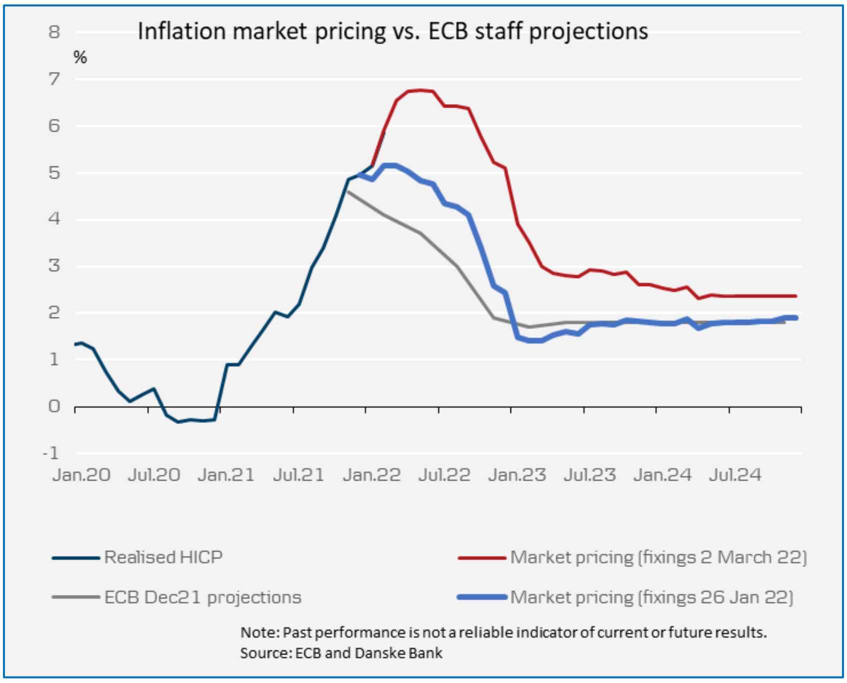
What's on the calendar

The main event, other than the geopolitics surrounding the Russia-Ukraine conflict, will be the US Federal Reserve meeting on Wednesday (Thursday morning, New Zealand time), when the central bank is expected to raise US interest rates by a quarter per cent. Its accompanying statement and comments from Chairman, Jerome Powell, will also be closely watched for guidance on how policy makers view the Ukraine crisis, and how much it could affect the central bank's outlook and the path for interest rates.

In Europe, economic sentiment figures for Germany and the Eurozone will also be closely watched, with the markets able to get a sense of how analysts see the Russian invasion of Ukraine impacting the respective economies.

Chart of the week

Inflation expectations are on the up in Europe. While European policymakers think they can get inflation under control – the market doesn't seem to think so. The market expects inflation in the Eurozone to rise close to 7% *and* remain above the ECB's 2% target level all the way through its forecasting horizon.



Here's what we're reading

If you missed it last week, then check out this great explainer on some of the sanctions being imposed on Russia, and what it may mean for its economy: https://noahpinion.substack.com/p/the-big-sanctions-a-quick-explainer?s=r

Developed markets have struggled against the backdrop of the Russia-Ukraine conflict, but what impact could it have on low and middle-income countries? https://www.brookings.edu/blog/future-development/2022/03/08/developing-economies-must-act-now-to-dampen-the-shocks-from-the-ukraine-conflict/