The Weekly Snapshot

7 March

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

It was more of the same for global equity markets with volatility at hand as US and European shares bounced around, tracking broader market sentiment and the events in Ukraine.

By the end of the week, most international equity markets were lower with the S&P 500 falling around 1.3%, its third losing week in the last four, while in Europe equities continue to underperform, with benchmarks in Germany and France recording significant losses for the week, and some nearing bear market territory (20% decline from all-time high).

In New Zealand, equities remained resilient amid the unrest in Europe, continuing their recent outperformance, with the NZX 50 ending the week nearly 2% higher. Meanwhile, Australian equities also finished the week higher, with the ASX 200 gaining around 1.5%, helped in part by energy stocks, which are benefiting from the rise in commodity prices.

What's happening in markets

All eyes remained on the Russian-Ukraine conflict last week, with events taking a dire turn late Thursday when the Zaporizhzhia nuclear power plant – the largest nuclear power plant in Europe – caught fire amid an attack by Russian troops. By Friday, it was reported the nuclear power plant was now under the control of Russian forces, but the attack caused no release of radioactive material.

In financial markets, oil continued to be in focus, with the price of crude briefly spiking to its highest level since September 2008, further fuelling inflation concerns. Surging commodity prices continue to dampen the outlook for growth and put policymakers, especially in Europe and the US, in a conundrum. It wasn't long ago that the Federal Reserve and European Central Bank were set to begin tightening monetary policy to combat inflation – and for the Fed, it was looking like a faster-than-expected tightening cycle was on the cards.

Now, with the outlook for growth more uncertain and inflation showing no signs of slowing, there are fears the economy could be headed towards a recession, or even worse—stagflation (high inflation, low growth).

And speaking of central bank policy, Fed Chair Jerome Powell spoke in front of Congress on Wednesday, where he said he was in favour of a series of 25 basis point hikes to tackle the surging cost of living in the US, which he described as "nothing like anything we've experienced in decades". Powell added it was too early to know the economic impact of the war in Ukraine.

Economic data took a back seat to geopolitical unrest, but there was some positive news with the US economy adding 678,000 jobs in February, well ahead of consensus.

Meanwhile, it wasn't such good news in New Zealand with the ANZ Business Confidence Index slumping to -51,8, the lowest level since the early stages of the pandemic. Inflation was again the driver, with pricing intentions hitting a record high of 74.1, up from 63.6. Furthermore, the ANZ-Roy Morgan Consumer Confidence Index fell to 81.7 – the lowest reading since ANZ began collecting the data in 2004. Of note, rising mortgage rates and elevated house prices saw the proportion of people who believe it's a good time to buy a house or major household item fell to -21.

What's on the calendar

The geopolitical unrest will remain front and centre this coming week ahead, and probably for a while, as Russian forces show no signs of backing off.

Nevertheless, it is a busy week in financial markets, highlighted by the European Central Bank meeting on Wednesday. Policymakers find themselves stuck between a rock and a hard place with the growth outlook deteriorating and rising energy prices ensuring further upside to inflation, at least in the short term. Given the uncertainty, it is unlikely the ECB would signal a rate hike in the coming months.

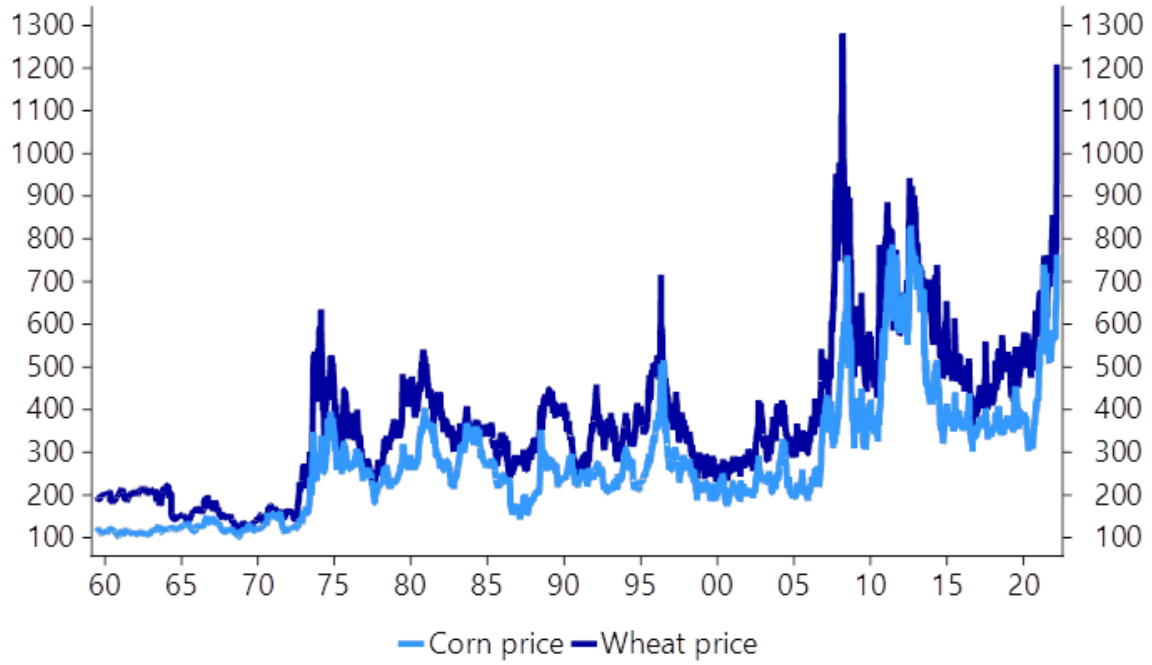
In economic data, US inflation figures for February are released on Thursday. Expectorations are for further monthly price rises, and a year-on-year rate nearing 8%. The risk remains to the upside, and a reading above 8% will put pressure on the Fed to consider a 50 basis point hike, although the market has all but priced out the likelihood of this, according to CME FedWatch data.

Down under, it's a quiet week on the calendar, but the Omicron surge continues to dominate headlines with daily cases consistently above 20,000.

Chart of the week

It's not just oil prices that are climbing, wheat and corn prices (among many other commodities) have also surged higher.

Chart 3: Wheat and corn prices have increased markedly



Source: Nordea Markets and Macrobond

Here's what we're reading

How Geopolitics Impacts Markets (1941-2021): what history can teach us about conflict and equity and bond markets - https://ritholtz.com/2022/02/markets-geopolitics-1941-2021/

If you're looking for a short-ish explainer on the sanctions imposed on Russia, here is a great round-up - https://noahpinion.substack.com/p/the-big-sanctions-a-quick-explainer?s=r

A good article on just how big the economic fallout for Russia will be: "This is terra incognita for economic policy. No country has ever faced this kind of global freeze-out." - https://www.theatlantic.com/newsletters/archive/2022/03/vladimir-putin-economy-sanctions-swift-fallout/623330/

Oil price surge revives Wall Street fears of 1970s-style stagflation - https://www.reuters.com/business/oil-price-surge-revives-wall-street-fears-1970s-style-stagflation-2022-03-03/