The Weekly Snapshot

15 November 2021

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

US equity markets fell from record highs, although they mostly recovered by the end of the week to finish only modestly lower. The S&P 500 Index ended the week down 0.3%, while the Dow Jones Industrial Average and the NASDAQ 100 Index both finished down 0.6%. This followed another bumper inflation reading in the US – which sent global bond yields sharply higher mid-week – and as consumer sentiment there fell to a 10-year low.

It wasn't a great week down under, with the NZX 50 continuing its recent underperformance, ending the week down over 1% as rising bond yields weighed on equity prices, and as the ASX 200 Index in Australia fell 0.19%.

Bond markets saw yields rise sharply following the US inflation reading. The yield on the US 10-year government bond rose 12 basis points to 1.57%, while the yield on the equivalent government bond in New Zealand rose 11 basis points to 2.62%. When bond yields rise, their prices tend to fall.

What else happened in financial markets?

In the US, the cost of living is now rising at its fastest rate in three decades. Over the 12 months to end October, the Consumer Price index (CPI) showed that prices rose 6.2% (compared to 5.4% last month).

The impact of the global pandemic continues to be felt. Supply chain bottlenecks and increased demand as the vaccine rollout has allowed the economy to reopen is mainly to blame for the rises. Meanwhile, a shortage of staff in some sector has seen wages rises – and this is feeding into higher prices also. In fact, every sector saw some price inflation, with the exception of airfares and alcoholic beverages.

Inflation looks like it's going to remain high. The rise in shelter (i.e. housing) inflation is particularly concerning – as typically there's a lag in this sector. The pressure therefore remains on the US Federal Reserve – who only last week announced an easing of its pandemic stimulus programme – and could get them to consider earlier interest rate increases.

In the UK, growth slowed sharply in the third quarter, as its economy was impacted by rising COVID-19 infection rates and global supply shortages. Figures showed that its economy expanded only 1.3% during the three months to end September (down from 5.5% in the previous quarter) during a period when restrictions on activity were being lifted. Poor trade performance – impacted by more expensive oil imports – also acted as a brake on growth. While the service sector recorded the fastest rate of growth (thanks to jump in hotel and restaurants), manufacturing and construction sectors fell.

Meanwhile, across the ditch in Australia, the unemployment rate rose to 5.2% in October, as the economy lost 46,000 jobs. The figures were collected when both Victoria and New South Wales were in lockdown, but were worse than many predicted. The Australian dollar fell as investors pared back expectations of an early move by the Reserve Bank of Australia to raise interest rates.

What's on the calendar?

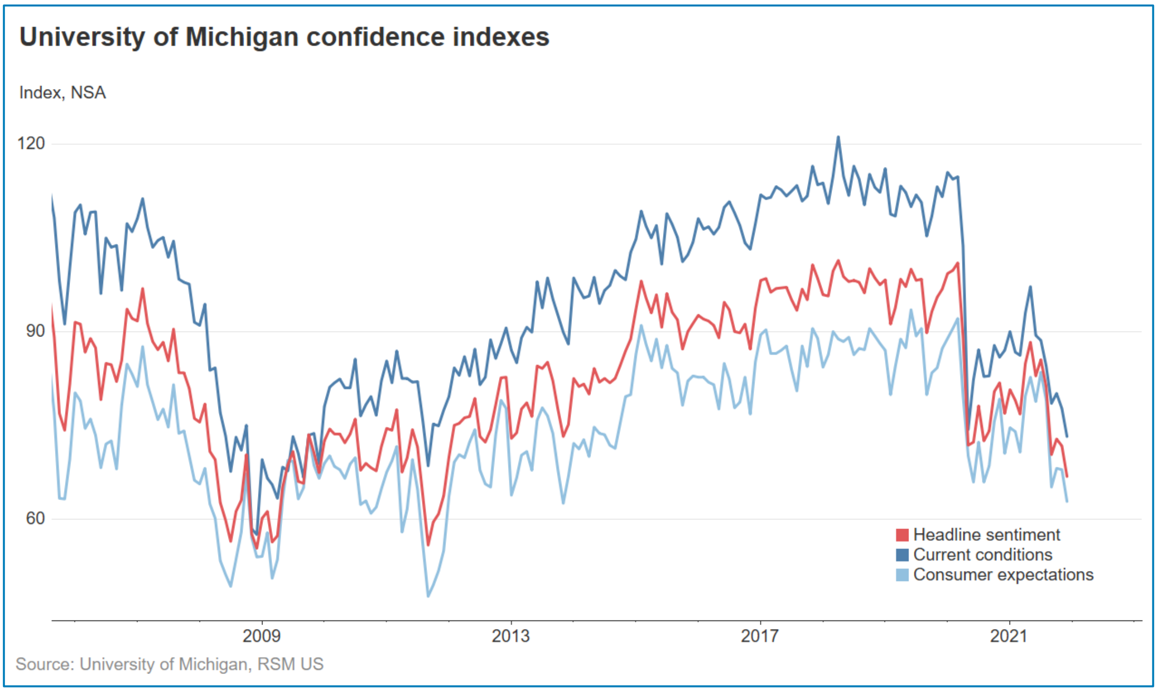
In the US, all eyes will be on retail sales and industrial production figures. With consumer prices continuing to head higher, a weak retail sales figure could increase pressure on the US Federal Reserve to raise interest rates.

Staying with inflation, Eurozone and UK inflation data is due mid-week. Against this backdrop, we should expect investors to pay close attention to any commentary from the world's central banks.

Closer to home, the minutes from the last Reserve Bank of Australia meeting will be a focus. At its meeting two weeks ago, it left interest rates unchanged but opened the door for a rate hike sooner than its often-repeated 2024 prediction. In New Zealand, while it's a relatively quiet week for data, the daily COVID-19 case numbers will be a focus as they steadily head higher following a record 207 cases on Sunday.

Chart of the week

Concerns over inflation have fed into consumer sentiment, pushing the index from the University of Michigan to a 10-year low of 66.8 (from 71.7 last month). Behind the decline was rising gasoline prices, which have long had a significant effect on overall consumer confidence. Gasoline prices accounted for about a third of the year-on-year CPI reading released last week.



Here's what we're reading

The rate of people quitting their jobs in the US reached an all-time high of 3.0%, according to the latest Bureau of Labour Statistics: https://realeconomy.rsmus.com/chart-of-the-day-strong-labor-demand-pushed-quit-rate-to-record/