The Weekly Snapshot

22 November 2021

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

Overall, it was a fairly uneventful week in global financial markets, with global equities up slightly, and bond yields marginally lower. Inflation remained a key focus for markets – during a week when the United Nations suggested that surging shipping costs could drive global inflation higher by 1.5% over the next year (see chart of the week).

The S&P 500 Index in the US finished up 0.3%, while the tech-heavy NASDAQ 100 Index outperformed, up 1.2%. It was another poor week down under. The NZX 50 continued its recent underperformance, given concerns around inflation and the prospect of further increases in interest rates. The index finished the week down 1.6%. Across the ditch, the ASX 200 Index in Australia fell 0.7%.

The yield on the US 10-year government bond fell 2 basis points to 1.55%, while the yield on the equivalent 10-year bond in New Zealand fell 4 basis points to 2.58%.

What else happened in financial markets?

During the week, President Joe Biden held a virtual summit with China's Xi Jinping, which attempted to stabilise the relationship – with a broad range of topics being discussed. We believe this is a first step towards slightly more co-operation and may open the door to some adjustments on the tariff front if the phase 1 trade deal targets are eventually renegotiated.

Markets were also waiting for confirmation as to who Joe Biden will nominate as the next chair of the Federal Reserve. Most expect current incumbent Jerome Powell to be renominated, however, there is every chance that Biden decides to appoint someone else. The chair of the Federal Reserve is one of the most powerful economic jobs in the world, with the ability to move markets with a single phrase, so markets are paying very close attention.

Staying in the US, retail sales rose for the third month in a row, despite inflation being at a three-decade high. Retail sales rose 1.7% in October (against an expected 1.3%). The increase in sales was broad based and is backed by strong reports from US department stores. The data has set the tone for a strong final quarter of the year.

The UK economy also remained in focus. The unemployment rate fell from 4.5% to 4.3%. Meanwhile, inflation figures have again raised the prospect of a move by the Bank of England, who surprised at their last meeting by keeping them on hold. In October, UK inflation jumped sharply higher, from 3.1% previously, to 4.2%. Similar to the US, retail sales rose despite consumer prices heading higher.

Of course, inflation remained a key theme in the eurozone too. The annual rate of inflation jumped from 3.4% to 4.1%, but was in line with expectations. However, in numerous speeches throughout the week, ECB President, Christine Lagarde, reiterated that the conditions to raise interest rates were unlikely to be met next year, meaning it does not expect interest rates there to rise until 2023.

However, across Europe, there were growing concerns about rising rates of COVID-19 infections. Many governments across the continent are bringing in new restrictions in a bid to get back on top of record daily case numbers. It includes Austria's move to go back into a full lockdown and mandating the whole population to be vaccinated from 1 February.

What's on the calendar?

In the US, a focus will be on third quarter GDP data, as well as minutes from the last US Federal Reserve meeting. Meanwhile, in Europe, consumer confidence will be closely watched. Later in the week, eyes will shift to Germany, with business sentiment and third quarter GDP due to be released.

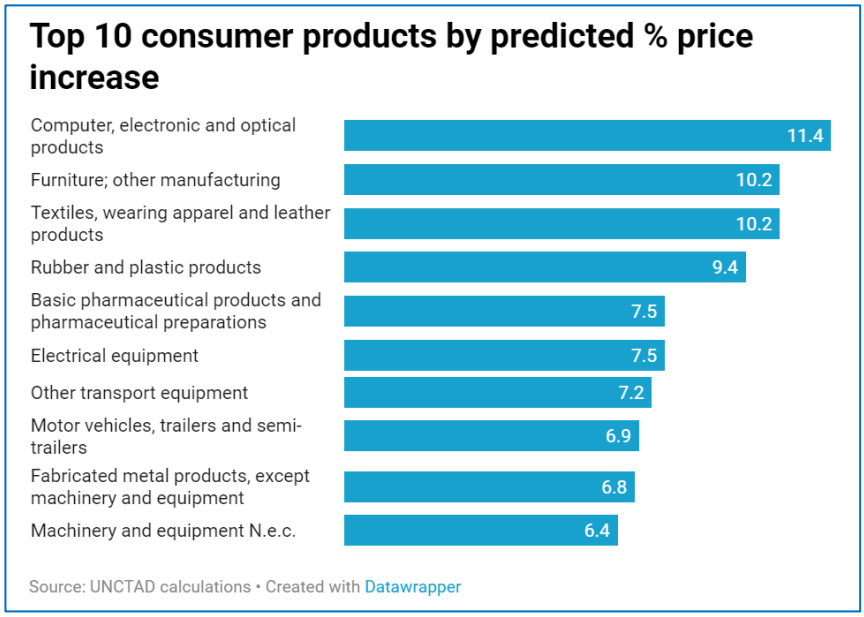
At home, the main event of the week will be the Reserve Bank of New Zealand (RBNZ) monetary policy decision on Wednesday. At its last meeting the RBNZ raised rates by 0.25%, so the question remains whether it will continue with its tightening bias to get on top of inflation.

Chart of the week

The global surge in container shipping rates could send consumer prices 1.5% higher over the next year, according to a report from the United Nations Conference on Trade and Development (UNCTAD). The rate for a single shipping container has skyrocketed over the last 18 months as the coronavirus pandemic disrupted supply chains and trade channels.

Its analysis shows that the current surge in container freight rates, if sustained, could increase global import price levels by 11% and consumer price levels by 1.5% between now and 2023. By country, the U.S. would see consumer prices rise by 1.2%, while China would see a 1.4% increase. The analysis found that smaller countries more dependent on imports could see consumer prices rise by a much higher amount.

By product, electronics, furniture, and apparel would see the greatest price increases — of at least 10% globally — due to supply chain distribution.



Here's what we're reading

What would it cost to issue 50-year US Treasury bonds?
https://www.frbsf.org/economic-research/publications/economic-letter/2021/november/what-would-it-cost-to-issue-50-year-treasury-bonds/