The Weekly Snapshot

20 September 2021

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

Overseas equity markets drifted a little lower again this week, continuing their risk-off tone on the back of some weaker-than-expected economic data in the US. The S&P 500 Index and the Nasdaq Index were down 0.6% and 0.5% respectively. In contrast the local share market, as measured by the NZX 50 Index, was up 0.5%, as New Zealand data was on the more positive side.

Bond yields edged marginally higher, having fallen mid-week following US inflation data. The yield on the US 10-year government bond rose by 3 basis points to 1.37%, whilst that on the New Zealand equivalent was up 2 basis points to 1.89%.

In other markets, commodity prices were higher last week. Oil prices rose, a result of declining US crude oil inventories (i.e. the amount held in storage fell) and on expectations that global demand for oil will rise as the vaccinations roll-out widens. Meanwhile, aluminium prices touched $3,000 a tonne for the first time since 2008, as restrictions on output in China (the world's biggest producer) has fuelled concerns about supply.

What's happening in markets

The key focus for global markets last week was US inflation data. Consumer prices rose 0.3% in August, or 5.3% on a year-on-year basis. However, core CPI (which excludes the volatile food and energy components) increased at its slowest pace in six months, rising only 0.1% over the month. Some of the recent drivers of inflation have gone into reverse; used car prices, airline fares and hotel prices all fell during August as the ongoing spread of the Delta variant of COVID-19 appeared to hold back demand.

Cooling inflationary pressures raised questions about the pace of the economic recovery in the US, which some commentators took to suggest that the US Federal Reserve may have been right in saying the recent jump in inflation was only transitory. While share markets traded lower, bond yields initially fell (and their prices rose) as the inflation data raised questions about when the Federal Reserve would begin 'tapering' its bond purchases.

It wasn't all bad news in the US though. Late in the week, retail sales rose unexpectedly in August, up 0.7% over the month – boosted in part by back-to-school shopping and child tax credit payments.

At home, the key economic data of note was second quarter growth data. It showed that Gross Domestic Production (GDP) rose by a seasonally adjusted 2.8% during the three months to end June, well ahead of consensus forecasts. The second quarter experienced far few restrictions than in previous quarters, with the retail, food and accommodation sectors being the biggest contributors to growth. See overleaf for more information.

The New Zealand economy was therefore running hot ahead of the latest lockdowns. As a result, market expectations have firmed during the week that the Reserve Bank of New Zealand (RBNZ) will go ahead and lift the Official Cash Rate (OCR) by at least 25 basis points at its next meeting, on 6 October. This is despite the view that GDP will again fall back sharply in the third quarter due to the current restrictions.

What's on the calendar

The key event this week will be the US Federal Reserve meeting on 20/21 September (US), which is when the market will get another look at the likely timeline for US monetary policy normalisation. With inflation coming in below expectations, it's now widely expected that the Federal Reserve will keep preparing the market for a tapering announcement later this year.

In New Zealand, the focus will be on the post-Cabinet COVID-19 Alert Level update later today and whether Auckland will move down to Alert Level 3. The Government's decision comes as the number of daily cases has risen slightly over the last few days, and news overnight of three cases in Waikato.

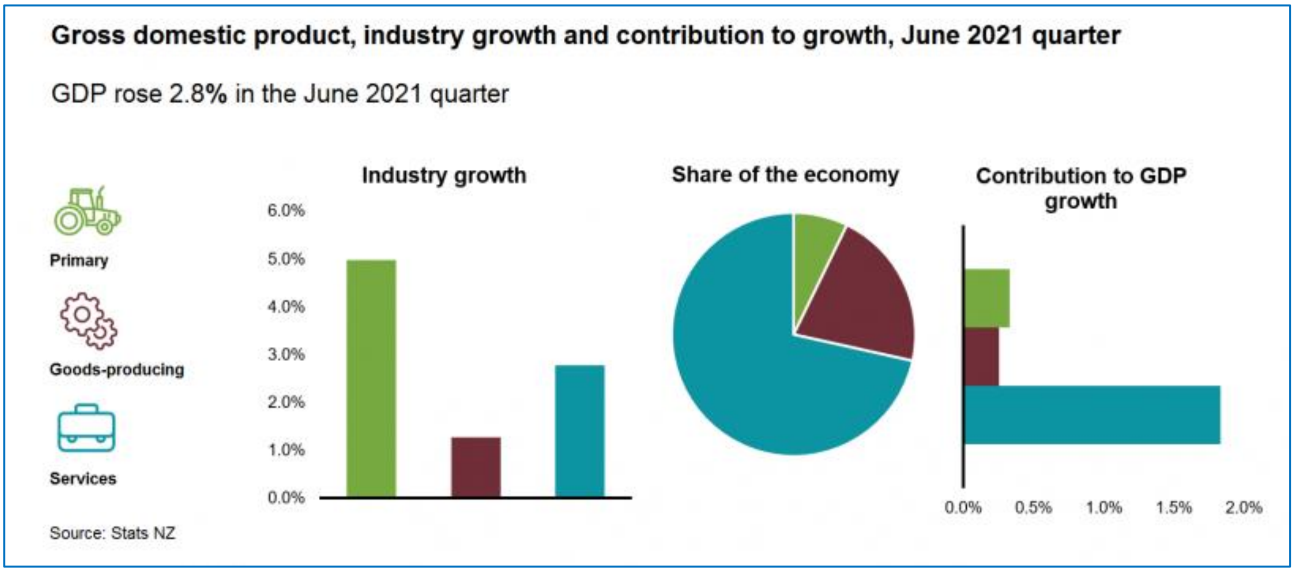
Chart of the week

As mentioned, New Zealand economic activity rose 2.8% in the 3 months ending June, as measured by GDP. This follows a rise of 1.4% in the previous quarter. Average annual GDP rose 5.1 over the year.

All industry groups rose:

- Services industries, which make up about two-thirds of the economy, rose 2.8%.
- Good producing industries, which make up about one-fifth of the economy, rose 1.3%.
- Primary industries, which make up the remainder of the economy, rose 5.0%.

Lower restrictions and the opening of trans-Tasman travel contributed to growth during the quarter. There were fewer COVID-19 alert level restriction during the quarter than in previous quarters. The Wellington region spent a total of 6 days at Alert Level 2 at the end of the period, but the rest of the country was at Alert Level 1 throughout the quarter.



Here's what we're reading

How has the pandemic impacted inflation? This article looks at the historical impact of pandemics on the economy and the short and long term impacts on inflation.
https://blog.nationwidefinancial.com/markets-economy/how-has-the-pandemic-impacted-inflation/