The Weekly Snapshot

12 August 2024

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

It was one of the more volatile weeks for many years in global markets, as equity markets plunged on Monday, highlighted by the Nikkei 225 Index's 12.4% decline – its biggest one-day fall since 1987. US equities followed suit when they opened on Monday, as did other key markets, but their losses were in and around 3% for the major markets on that day.

After the volatile Monday, equity markets see-sawed, but put in a good Thursday and Friday to finish either side of flat. In the US, the S&P 500 Index was pretty much unchanged over the week, while the Dow Jones Industrial Average and the Nasdaq Composite Index remained a very modest 0.6% and 0.2% in the red.

European markets finished the week higher, with the Euro Stoxx 50 Index up 0.8%, and the UK's FTSE 100 Index was flat. In Asia, Japan's Nikkei 225 Index finished the week down only 2.5%, as following Monday's sizeable fall it rebounded by a strong 10% on Tuesday. Closer to home the Australian and New Zealand markets were not able to recoup their losses, down 2.1% and 1.7% respectively.

Bond markets were strong on Monday given the flight-to-quality out of equity assets, but then gave back their gains as equity markets recovered over the remainder of the week. The yield on the US 10-year government bond rose around 15 basis points, to 3.94%. When bond yields rise, their prices fall.

What's happening in markets?

Monday's volatile open was driven in part by investors unwinding the hugely popular yen 'carry trade'. A carry trade is where investors borrow in a low-cost currency (in this case, the Japanese yen), to invest in other currencies and assets that offer much higher yields (such as the US dollar, bonds or equities), to earn a premium. However, the Bank of Japan lifted interest rates in the previous week, thereby reducing the premium available from this trade. This prompted investors to begin to unwind their positions, which created a surge in the Japanese yen, a sell-off in equities and a broad pickup in volatility.

Monay's volatility in equities saw the VIX Index – a popular measure of market volatility – rise to its highest level since March 2020, when several central banks took emergency action on interest rates in the wake of the global pandemic.

The subsequent recovery in markets was helped, in part, by some better-than-expected employment data in the US, easing some of the fears surrounding the state of the country's labour market following the previous Friday's weak non-farm payrolls report. For the week ending 3 August, the number of Americans filing for unemployment benefits fell to 233,000, below expectations.

In New Zealand, the unemployment rate rose to 4.6%, its highest level in three years. The figure was in-line with the Reserve Bank of New Zealand's forecast, but slightly below market forecasts. Heading into the release, the market was heavily positioned long bonds – expecting interest rates to drop further, so it was no surprise to see a reversal in recent moves and for bond yields to rise.

Elsewhere, New Zealand business inflation expectations fell across the board: One-year annual inflation decreased from 2.73% to 2.40%, while two-year inflation expectations decreased from 2.33% to 2.03%.

Across the Tasman, the Reserve Bank of Australia (RBA) left interest rates unchanged on Tuesday, and despite the recent market volatility and expectations of interest rate cuts by several global central banks, it maintained its hawkish bias. In its statement, the central bank said it was not yet convinced that inflation was under control and still far from its target. "*Inflation in underlying terms remains too high, and the latest projections show that it will be some time yet before inflation is sustainably in the target range. Data have reinforced the need to remain vigilant to upside risks to inflation and the Board is not ruling anything in or out*", the RBA said in its statement.

What's on the calendar?

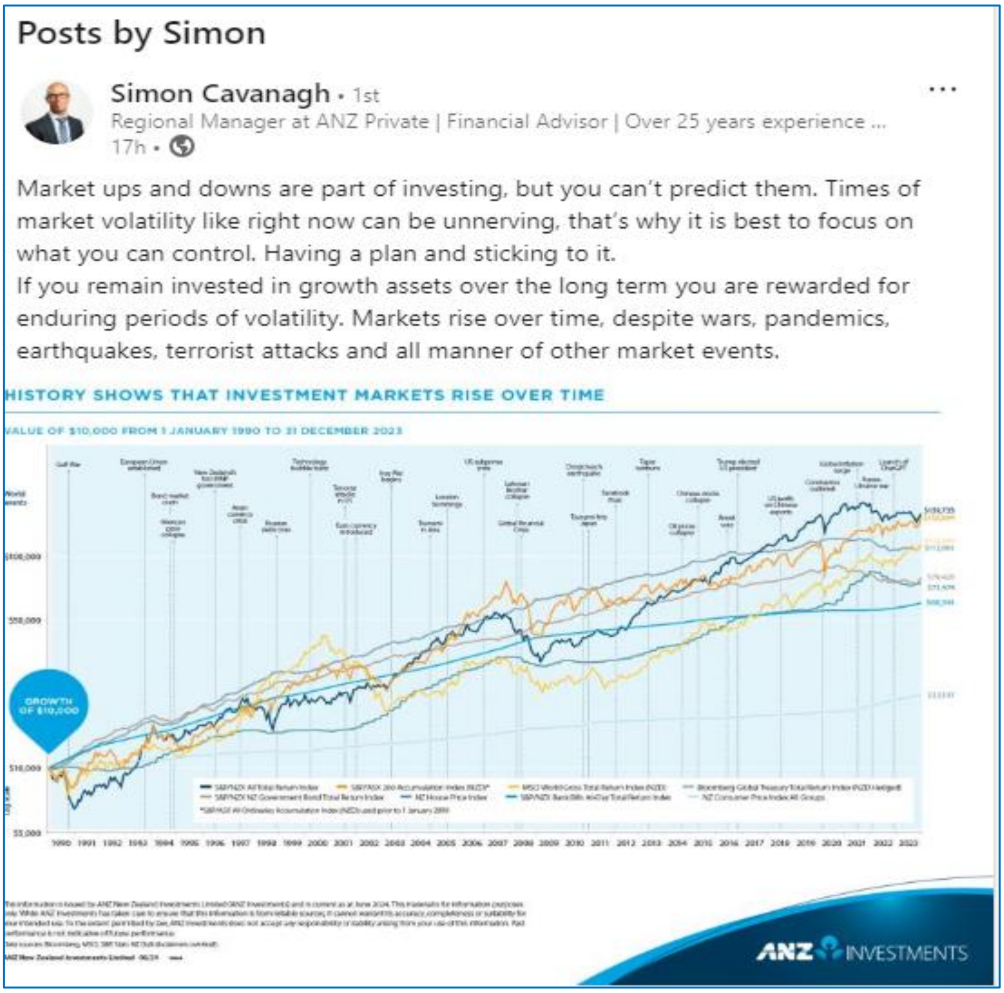
All eyes locally will be on Wednesday's Reserve Bank of New Zealand (RBNZ) meeting where there is a myriad of expectations for what they will do with interest rates. Most forecasters are predicting they will hold off cutting rates – with October and November the two most likely dates – while others have called for immediate cuts. After the employment report figures last week, interest rate markets are pricing in about a 70% chance of a cut, down from a full cut being priced in prior to the release.

In the US, the focus will be on inflation, with July's CPI (Consumer Price Index) data due out on Wednesday. Investors will be watching for further evidence that inflation is heading in the right direction, especially given widening expectations for the Federal Reserve to lower interest rates into the tail end of this year. Other key data will include US retail sales and US industrial production, both out on Thursday.

There is also inflation data out in the UK and Eurozone, as well as updated to second quarter GDP in Japan, and industrial production and retail sales out of China.

Chart of the week

As Simon points out below, volatility – like we saw last week – is part and parcel of investing. But it's also worth remembering that history shows the importance of staying invested. For more on navigating these periods, see [Managing market volatility]() and a reminder of the [benefits of long-term investing]().



Here's what we're reading

Credit card balances and delinquencies continue to rise: NY Fed report. [Click here]().

Ben Carlson: Three thoughts about the market correction. [Click here]().