

The Weekly Snapshot

19 August 2024

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

Equity markets turned in one of their strongest weeks in a while, shrugging off recent volatility to finish the week higher. Several US share markets rose each day last week, with the best performing being the Nasdaq 100 Index, which finished the week up 5.4%, while the S&P 500 Index rose by 3.9%. Japanese equities were also standout performers, with the Nikkei 225 Index delivering an 8.7% gain.

Meanwhile, it was a similar story in New Zealand, with the NZX 50 Index rising 3.9%, trading to its highest level in two-and-a-half years. The interest rate sensitive market benefited from a 25 basis point rate cut by the central bank.

The interest rate cuts saw local bond prices rise across the board (i.e. bond yields fell), with the New Zealand 10-year government bond yield ending the week down 13 basis points at 4.13%, while the two-year equivalent, which is more sensitive to changes in interest rates, was 23 basis points lower at 3.91%, its lowest level since October 2022.

Elsewhere, US bonds were mixed with a fall in annual inflation supporting bond prices, while a strong retail sales report later in the week erased some of these gains. The yield on the US 10-year government bond finished 6 basis points lower at 3.88%.

What's happening in markets?

On Wednesday, the Reserve Bank of New Zealand (RBNZ) cut the Official Cash Rate (OCR) by 25 basis points to 5.25%. It was the first interest rate cut since March 2020 and came as somewhat of a surprise with interest rate markets having been split on whether or not the RBNZ would drop the OCR. The central bank said current economic conditions warranted an easing of monetary policy, adding that further rate cuts are coming, but the extent of them will be data dependent.

"The pace of further easing will depend on the Committee's confidence that pricing behaviour remain consistent with a low inflation environment, and that inflation expectations are anchored around the 2 percent target", the RBNZ said in its statement.

In its Monetary Policy Statement (MPS), the RBNZ dropped its forward track drastically, where it now expects a further 140 basis points of cuts by the end of 2025. The market has shifted to price in far more than the RBNZ, with market pricing expecting about 180 basis points of cuts. As for the rest of 2024, the market is now pricing in more than 75 basis points of cuts.

It was a busy week in the US, beginning with more good news on the inflation front. Annual inflation dropped to 2.9%, its lowest level since 2021, while excluding food and energy, core inflation came in at 3.2% on an annual basis. Housing-related inflation continues to be the sticky component, with a 0.4% increase in shelter costs responsible for more than 85% of the overall rise in the price index for July.

Meanwhile, US recession worries subsided for the time being after retail sales rose 1% in July, far exceeding expectations, while on the employment front, weekly jobless claims fell 7,000 to 227,000, better than expected.

Elsewhere, in the UK, the economy rose 0.6% in the second quarter, largely inline with expectations, while retail sales for July were up 0.5%, largely in line with estimates and reaffirming a slight bounce back after a bigger drop in June.

Finally, in Australia, any hopes of an imminent rate cut by the Reserve Bank of Australia (RBA) were tempered after the economy added nearly 60,000 jobs in July. Although the unemployment rate rose 0.1% to 4.2%, the near-60,000 new jobs far exceeded all market forecasts.

What's on the calendar?

Coming off a busy week, economic data is rather light this week, but the annual gathering of global central bankers in Jackson Hole, Wyoming will garner plenty of attention. Most notably will be Federal Reserve Chair Jerome Powell's speech on the state of the US economy and the outlook for monetary policy.

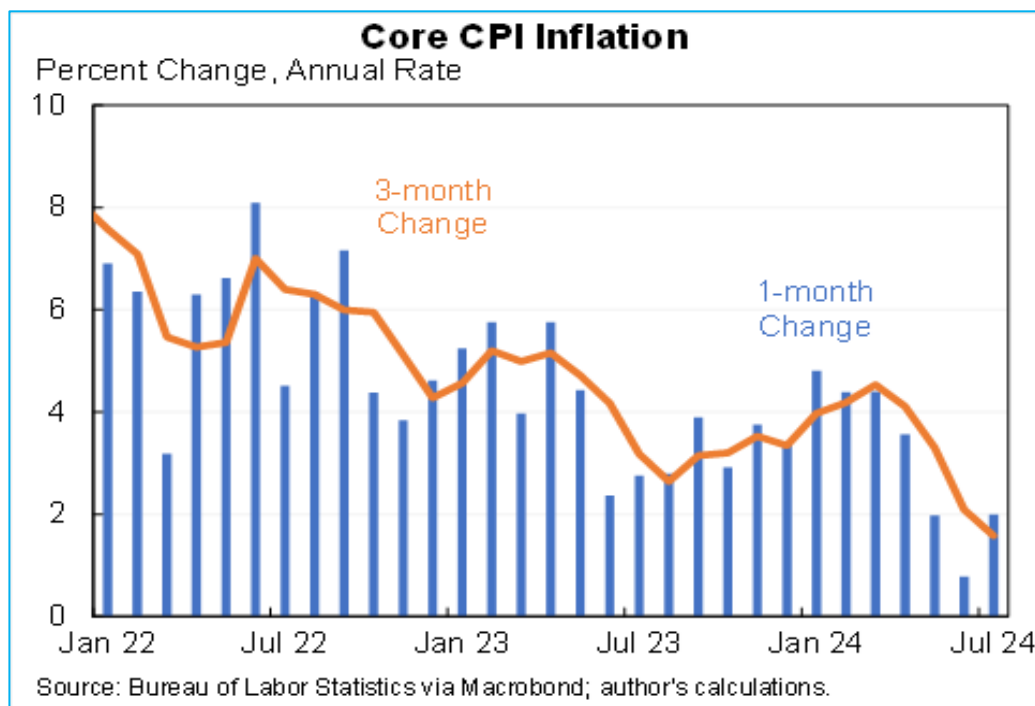
Historically, this gathering is a chance for the Fed to send a signal about monetary policy, and with interest rate markets pricing in a rate cut in September, Powell's comments will be closely scrutinised.

Otherwise, it's a quiet week on the economic calendar with New Zealand Q2 retail sales figures and euro area, Canada and Japan inflation data being the highlights, while minutes from central bank meetings in Australia and the United States are also released.

Chart of the week

With core inflation back to an annual pace of 3.2% it's even better news when you look at recent trends. Annualised 1m core inflation is 2%, annualised 3m is 1.6% and annualised 6m is 2.8%. Furthermore, if you exclude shelter inflation, these annualised figures are -0.2%, -0.3% and 1.5% respectively.

These figures are a strong argument that the Fed could be behind the curve. However, the contrary argument is that the economy is holding up well when you assess consumer spending.



Here's what we're reading

Bary Ritholtz: Catastrophizing Debt. [Click here.](#)

John Mauldin: A head fake, maybe. [Click here.](#)