The Month Ahead – August 2023

Global equity markets continued their good run in July, with several indices reaching their highest levels in more than 12 months. In the US, the S&P 500 was on track to record its fifth straight monthly gain, with the index at its highest level in 15 months, while the tech-heavy NASDAQ 100 reached its highest level since January 2022. In Europe, the UK's FTSE 100 stood out, and was on track to finish higher, reversing losses from the prior month.

Down under, it was a quieter month in New Zealand, with the NZX 50 in a relatively tight trading range, and mostly unchanged over the month, while in Australia, a rebound in some commodity prices helped the ASX 200 trade higher and on track for a positive month.

Looking ahead, central bank meetings, key economic data and the latter stages of corporate earnings highlight August, and to take a look at these, here's ANZ Investments' Month Ahead.

New Zealand employment report in focus; RBNZ should come and go with no surprises

In New Zealand, the Q2 employment report is likely to garner the most attention this month. With economic activity and consumer spending slowing, the labour market is one of the final sectors of the economy the Reserve Bank of New Zealand (RBNZ) is hoping cools off.

Over the past several weeks we have started to see some evidence the labour market is slowing with a decline in the number of jobs advertised. Although we don't expect to see a meaningful jump in unemployment just yet, it does appear the labour market is softening, which should slow wage growth, further helping cool inflation.

When the data is released, it is expected that the unemployment rate has moved up slightly to about 3.6%, off its multi-decade low of 3.2%.

August also sees the RBNZ meet, but it is widely tipped they will leave the Official Cash Rate (OCR) unchanged and maintain its hawkish monetary policy stance – pledging to keep interest rates high until the central bank is comfortable inflation has or is returning to its target level.

While we have seen some forecasters predict a 25 basis point hike, we believe the economy is showing enough signs of slowing that an OCR at 5.50% should be sufficient for this tightening cycle.

US inflation could fall below 3%

Inflation in the US is going in the right direction. This month, CPI data for July could potentially show that annual inflation has fallen back below 3%, a far cry from the 9.1% a little over 12 months ago. The precipitous fall back near the central bank's target rate has been a welcome relief to policymakers, and with growth holding up relatively well, and the employment market still robust, the likelihood the Fed can engineer a soft landing is growing.

While it is expected that headline inflation has fallen below 3%, core CPI, which excludes volatile food and energy prices, is likely to remain elevated at around 4.5%, although that too is trending in the right direction – down from 6.6% last year.

Reserve Bank of Australia is still not done hiking

The Reserve Bank of Australia (RBA) meets in early August and interest rate markets are leaning towards a 25 basis point hike, which would take its key policy rate to 4.35%. The RBA continues to face a resilient employment market that will keep wages underpinned and mean bringing inflation back near 2% may take longer than they had first hoped.

The RBA has hit the pause button twice since starting its interest rate increases more than a year ago, but with its inflation rate one of the highest among developed nations, and a labour market that is showing no signs of slowing, further interest rate hikes appear to be needed.

As of 25 July, interest rate markets are pricing in a 65% chance of a 25 basis point hike.

Earnings season winds down with large retailers

August sees the latter stages of corporate earnings season with the last week or two dominated by the large US bricks-and-mortar retailers. With the cumulative effect of the interest rate rises still being absorbed by households' budgets, these large retailers can offer good insight into the health of the underlying economy – and whether a soft landing is possible.

In August, the retailers that will offer some good insight into the health of the US consumer are Walmart (17 August), Target (16 August) and Home Depot (14 August).