

The Weekly Snapshot

15 April 2024

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

Financial markets were on the back foot for most of last week, with a hotter-than-expected inflation report out of the US weighing on global bond markets, while equities came under pressure amid rising geopolitical unrest in the Middle East. By the end of the week, the yield on the US 10-year government bond had reached a five-month high, closing about 10 basis points higher at 4.53%, while government bond yields in Europe and Australasia saw similar moves.

In equities, the S&P 500 Index fell for a second straight week, ending down 1.6%, and the NASDAQ 100 Index closed down 0.6%, while in Europe, the Euro Stoxx 50 Index closed down more than 1%.

And down under, the NZX 50 Index fell 0.6%, but Australia's ASX 200 Index was able to eke out a small gain, closing the week 0.2% higher.

What's happening in markets?

Wednesday's US inflation report dominated the headlines last week, and it was not good news for policymakers, with inflation rising at 0.4% in March, and 3.5% on an annual basis – both were ahead of forecasts. It was the third straight month of inflation data that came in higher than consensus and all-but ruled out an interest rate cut in June, with markets now pricing in the first full cut in November. Following the release of the CPI data, the odds of a June rate-cut fell to ~15%, down from about 60%, according to the [CME's FedWatch tool](#).

At a sector level, gas and shelter inflation continued to climb, with the two subsets contributing more than half of the monthly increase. Excluding new and used cars, most other categories rose or remained flat over the month. Meanwhile, core inflation – which excludes food and energy prices – rose 0.4% in March, and 3.8% on an annual basis.

On Thursday, there was some better news on the inflation front, with US producer prices rising at a slower pace than expected, with the Producer Price Index (PPI) climbing 0.2% in March, and 2.1% on an annual basis. Still, the 2.1% annual increase was up from 1.6% in February, highlighting the persistence of price rises across the board.

Also garnering plenty of attention was Thursday's European Central Bank (ECB) meeting, where interest rates were left unchanged. However, the central bank gave a relatively strong signal that interest rate cuts could be coming.

"If the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction", the ECB said in a statement.

Meanwhile, in New Zealand, the Q1 Quarterly Survey of Business Opinion (QSBO) showed business confidence fell 14 points, with trading activity also on the decline, moving more in line with other recent economic data (GDP and retail sales).

Finally, geopolitical tensions rose further over the weekend when Iran launched waves of missiles and drones toward Israel, which they said was in retaliation for Israel's attack on an Iranian consulate in Syria earlier in April. The attacks followed the seizure of an Israeli-affiliated container ship in the Strait of Hormuz by Iranian forces.

What's on the calendar?

This week will likely be dominated by the ongoing conflict in the Middle East and the extent to which it escalates – and to the participation by the West. The US and the UK helped thwart the Iranian drones and missiles headed for Israel on Saturday, while other nations in the West have strongly condemned Iran's actions. In a virtual press conference Saturday, US President Joe Biden said: "Our commitment to Israel's security against threats from Iran and its proxies is ironclad".

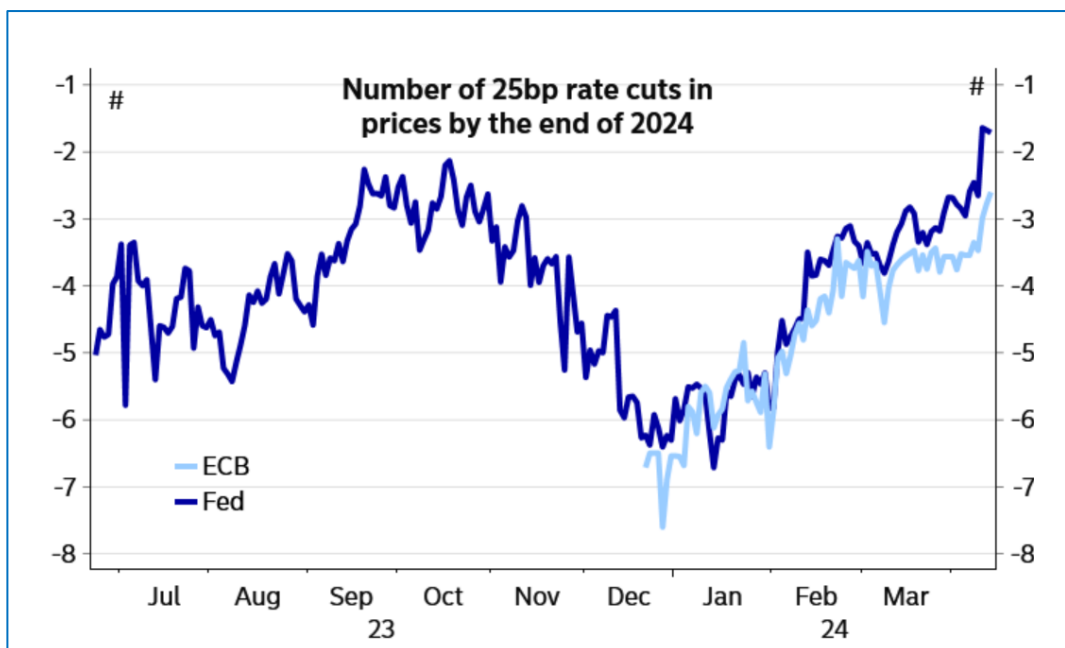
In economic data, New Zealand inflation will be front-and-centre, with the release of the first-quarter Consumer Price Index (CPI). Inflation in New Zealand remains one of the highest among developed economies and has been the main reason why policymakers here, unlike many overseas, have been reluctant to even mention the possibility of interest rate cuts. The market is expecting annual inflation to drop from 4.7% to about 4%, but as usual, non-tradeable inflation will be closely watched as it remains elevated above 5%. With the economy slowing, any surprise to the downside could bring in the possibility of interest rate cuts in the latter stages of 2024.

Along with New Zealand, inflation data from the UK, Canada and Japan is released this week.

Elsewhere, there's the monthly slew of Chinese economic data, which includes retail sales, GDP, employment figures and industrial production, while Australia's employment report for March is also out.

Chart of the week

After a string of hotter-than-expected US CPI prints, financial markets are now pricing in fewer and fewer 25 basis point hikes by the end of the year.



Here's what we're reading

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China's New Currency Peg. [Click here](#).