The Weekly Snapshot

8 April 2024

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

It was a challenging start to the second quarter, with international equity markets on the back foot last week. In the US, all three of the major indices finished lower, despite a rebound on Friday following a stronger than expected employment report. The Dow Jones Industrial Average finished the week over 2% down, while the S&P 500 Index and the Nasdaq 100 Index fell 1.0% and 0.8% respectively. The sell-off in equities came amid a jump in oil prices and worries the Federal Reserve (the Fed) may hold off on interest rates cuts.

Taking a lead from its international counterparts, the NZX 50 Index was down 0.8%, with weaker performances from the likes of Kathmandu Brands, a2 Milk and Fisher & Paykel Healthcare. Across the Tasman, Australia's market also had a challenging time, with the ASX 200 Index down 1.6%.

Bond yields were higher over the week, with the bigger moves coming late on. The yield on the US 10-year government bond finished 20 basis points higher at 4.41%, while the yield on the equivalent New Zealand bond rose 5 basis points to 4.60%.

What's happening in markets?

The price of crude oil was up almost 5% to $91 per barrel after Israel attacked Iran's embassy in Syria. Markets are watching for what Iran may decide to do in retaliation after Tehran vowed *"punishment and revenge"* on Israel. The comments fanned fears of a widening conflict that may impact the flow of oil.

In addition to commodity prices fueling concerns around inflation, in the US, the ISM (Institute of Supply Management) manufacturing prices paid component jumped to 55.8 in March, from 52.5 in February, the highest reading in 20 months. As such, we can no longer expect the disinflationary trend from core goods to persist, making it harder for the Fed to achieve it's 2% target.

The next few monthly inflation prints will be critical in determining whether the disinflation trend is still in place. Assuming we see 0.2% prints for the March and April core PCE readings (core personal consumption expenditures index - the Fed's preferred measure of inflation), year-on-year core PCE inflation would fall to 2.5% going into the Fed's June meeting. In our view, this may be just enough progress for the Fed to begin cutting rates at that time. However, with the recent geopolitical and macro developments, the chance of such prints is receding.

On the topic of rate cuts, Neel Kashkari, president and CEO of the Federal Reserve Bank of Minneapolis added to the recent chorus of Fed speakers talking conservatively about monetary policy when he said *"we need to see more progress (on the inflation front) before we are confident enough to start a rate-cutting cycle"*. His comments contributed to the weakness in US shares during the week.

Kashkari also said the US economy had been *"very resilient"* in the face of prior aggressive rate hikes. Thus, if the economy sees continued strong job growth, strong consumer spending and strong GDP growth — that would likely further preclude the need for rate cuts.

And talking of jobs growth, the other key news out this week was US employment data, which showed that 303,000 new jobs were added in March, much stronger than the expected 200,000. Wages rose 0.3% for the month and 4.1% over the year, while the unemployment rate fell to 3.8%. While resilience in the labour market suggests the Fed may be hesitant to start cutting interest rates, share markets edged higher following the report, as the strong labour market has helped fuel consumer spending and earnings growth for businesses in recent times.

Over in Europe, the prospect of rate cuts from the European Central Bank (ECB) got fresh support from developments during the last week. In particular, the flash CPI (Consumer Price Index) print for March saw headline CPI fall to +2.4% (versus +2.5% expected), whilst core CPI fell to +2.9% (versus +3.0% expected), its lowest level since February 2022.

What's on the calendar?

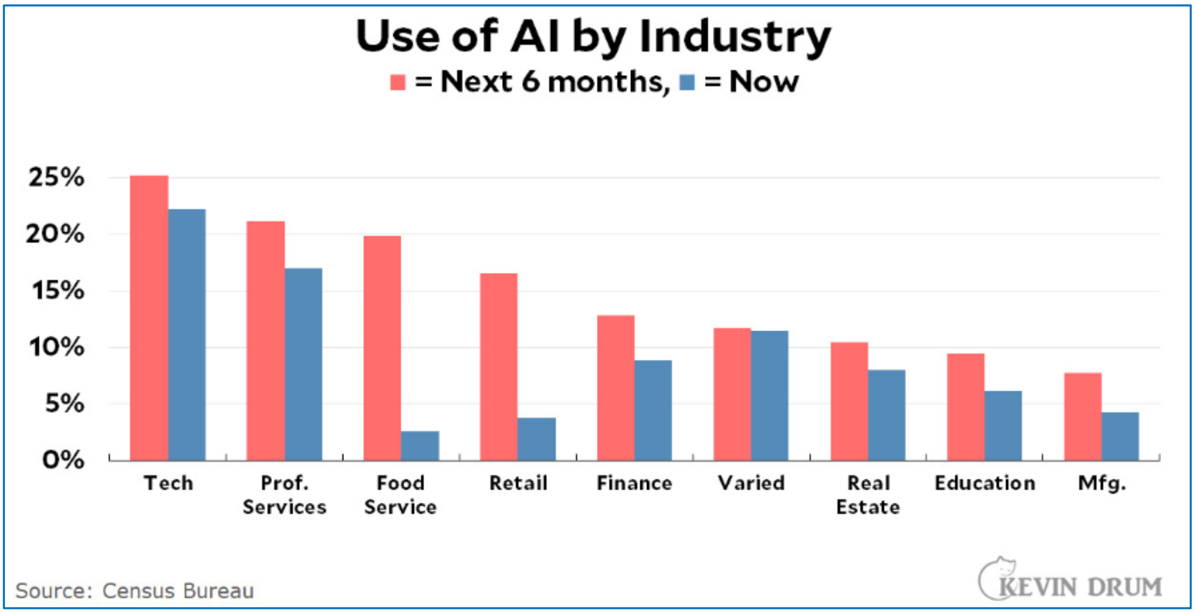
In terms of economic data, next week will be all about inflation data in the US, with closely watched CPI numbers to be released on Wednesday, and PPI (Producer Price Index) data out on Thursday.

Meanwhile, hot on the heels of last week's softer-than-expected inflation data, the ECB will meet on Thursday to decide on interest rates in the eurozone. While the recent data suggests its central bank will likely be first amongst all of the major ones to see inflation return to target level, interest rate markets are not expecting to see a cut this week, with the first one expected to come in June.

At home the key news will come from the Reserve Bank of New Zealand, who meet on Wednesday to decide on the future path of interest rates. With economic data broadly in line with the central bank's expectations, we're unlikely to see a change this week.

Chart of the week

The Census Bureau in the US recently released new survey data about artificial intelligence (AI) use. Interestingly, overall use of AI is still fairly low; about 5.4% of firms report using it now, expected to rise to 6.6% in about 6 months time. The chart below shows the top ten industries by expected use of AI in the near future. Food service and retail are particularly interesting – both report fairly limited use of AI right now, but expect huge increases over the coming months.



Here's what we're reading

Reuters: 'Upside' inflation risks keep Fed officials wary of turn to rate cuts. [Click here].

A wealth of common sense: Are index funds propping up the stock market? [Click here].