

The Weekly Snapshot

15 June

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

Equity markets retreated from their recent highs last week, with US and European stock markets ending the week lower. The decline was highlighted by Thursday's deep sell-off that saw the Dow Jones Industrial Average fall nearly 7%, its biggest daily decline since mid-March. For the week, the Dow and the S&P 500 fell around 5%, while in Europe, the Euro Stoxx fell by nearly 6%.

In New Zealand, losses were a little smaller, with the NZX 50 falling around 2.5%.

After a quiet period, bond yields fell sharply over the week with the US 10-year government bond yield falling around 20 basis points to 0.70%, while in New Zealand, the 10-year equivalent fell to 0.82%.

What's happening in markets

Equity markets gave up early gains in the week to finish lower after the US Federal Reserve painted a difficult outlook for the economy at its June meeting. Releasing its first economic projections since the COVID-19 (coronavirus) outbreak, the central bank cut its 2020 GDP forecast to -6.5%, raised its median forecast for 2020 unemployment to 9.3% and reiterated that inflation would likely remain below 2% until 2023.

Additionally, the Fed is projected to keep the fed funds rate at its current level (0% to 0.25%) through 2022.

Elsewhere, market sentiment was also dampened by data that showed coronavirus cases in nearly 20 states across America were trending upwards, raising concerns that the worst is far from over. Of particular concern is Arizona, where reports that hospital capacity is nearing 90%. And in Texas – the country's second most populous state – the hospitalisation rate hit its highest level since the outbreak, while in Texas' largest city, Houston, ICU capacity hit 88%, according to data from The Washington Post.

In economic data, UK GDP plunged by 20.4% in April, the largest monthly drop on record. All sectors of the economy showed contractions, with big losses in the services and air transport sectors.

In Australia, sentiment data bounced back with the NAB Business Confidence for May coming in at -20, up from -45 the prior month and better than most forecasts. And the Westpac Consumer Confidence also showed a solid rebound, coming in above expectations.

After rising to a five-month high earlier in the week, the New Zealand dollar weakened into the close and finished down 1% against the US dollar.

What's on the calendar

It's a busy week down under with some tier one economic data releases. On Thursday, first-quarter GDP for New Zealand is set for release. While the economic impact of the coronavirus outbreak didn't begin until late in the quarter, expectations are for a quarterly decline in growth, which would mean the country is more than likely in a recession, the first since the financial crisis.

Across the Tasman, Australian employment data for May will be closely watched. After a decline of more than 500,000 jobs in April, the economy is expected to record another monthly decline in jobs, while the unemployment rate is expected to creep higher to around 7%.

There's also a host of economic data out of China on Monday, which includes industrial production, retail sales and unemployment data.

And in the US, retail sales and jobless claims data will be closely watched.

In central bank news, there are a number of events, which include:

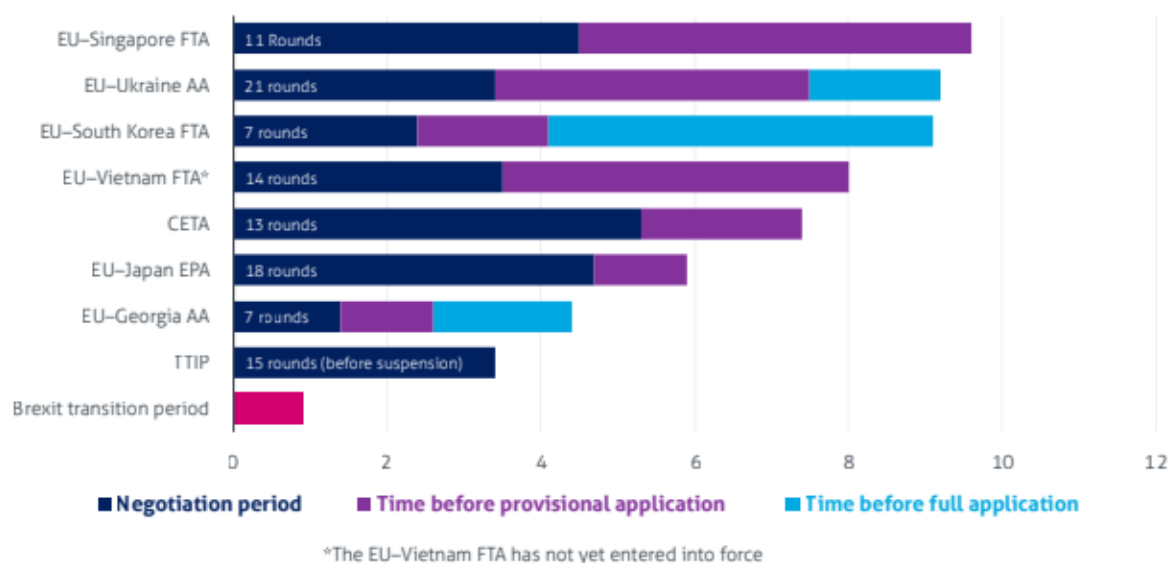
- Bank of Japan meets on Monday
- Reserve Bank of Australia releases the minutes from its prior meeting on Tuesday
- Bank of England meets on Friday

Chart of the week

Amid the pandemic and ensuing economic fallout, Brexit negotiations have had to play second fiddle, and with time running out before the UK goes into “no-deal” WTO rules, here’s a look at how long trade negotiations usually take.

The chart comes from this paper titled “[Implementing Brexit](#),” which lays out how both sides can buy more time.

Figure 1 Time taken for the EU to complete recent free trade agreements (FTAs), compared with length of transition period (years)



Notes: AA = Association Agreement, CETA = Comprehensive Economic and Trade Agreement, EPA = Economic Partnership Agreement, FTA = Free Trade Agreement and TTIP = Transatlantic Trade and Investment Partnership.

Source: Institute for Government analysis of European Commission, directorate-general trade data. Data taken up to 1 June 2020.

Here’s what we’re reading

The Atlantic published an interesting long-form article on a potential banking crisis similar to that of 2008/2009. However, the difference being the risk comes from corporate debt, as opposed to household debt. The article is written by Frank Portnoy, who worked in derivatives restructuring for Morgan Stanley- <https://www.theatlantic.com/magazine/archive/2020/07/coronavirus-banks-collapse/612247/>

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