

[Weekly Wrap 10 March 2023 – Commodity prices moving markets](#)

Thank you for joining me this Friday the 10th March, I'm Grady Wulff, a Market Analyst with Bell Direct and this is the weekly market update.

Investor sentiment was dampened this week by remarks made by Federal Reserve Chair Jerome Powell that interest rates will need to stay higher for longer, amid the release of unfavourable economic data in the region indicating inflation remains stubbornly high and the labour market remains very tight. Key US Job Openings and Labour Turnover Survey and ADP data out this week showed the number of job openings in the US only fell by 410,000 to 10.824 million in January, above market expectations of a decline to 10.5 million.

Investors fled energy and materials stocks over the course of this week as stocks in these sectors moved in-line with commodity price shifts, which dipped from Monday to Thursday. The drop in commodity prices can be attributed to a number of factors that disrupt the supply demand equilibrium.

Firstly, data out this week revealed China's recovery post scrapping the intense COVID-restrictions in the region, has been much slower and weaker than anticipated. China's Producer Price Index fell 1.4% in February, in the fifth straight month of producer price deflation and a large drop from the 0.8% decline in January. The 1.4% drop last month also exceeded analysts' expectations. Among the producer price index contributors, production materials shrank 2%, processing prices fell 2.6% and raw materials fell 1.3%. Consumer Price Index in the region also rose 1% in the 12-months to February 2023, a lower reading than the expectations for a 1.9% rise.

China's manufacturing sector bucked the weak trend though, returning to expansion mode in February with the index coming in at 52.6 points for the month which beat expectations of a rise to 50.5 points. Combining this and the PPI data out this week though, implies China's manufacturing and production is improving post lockdown, but is no where near operating at full capacity. Until China shows signs of a more rapid recovery back to full operational capacity, we may continue to see weakness on the commodity price front due to weaker-than-usual demand out of the world's second largest economy.

Another contributing factor to the decline in commodity prices this week can be linked to expectations that the Federal Reserve will tighten monetary policy further to combat inflation in the world's largest economy. Further tightening is aimed at cooling economic growth, which in-turn raises the risk of an economic slowdown that could dampen demand for energy and other key materials like iron ore. OPEC's Secretary-General said 'weakening oil consumption in Europe and the US could threaten the market'.

And finally, the USD has gained strength this week which may have had an impact on the price of commodities. Strength in the greenback compared to other currencies makes the cost of buying commodities which are sold in USD, more expensive, which in theory weakens the outlook for demand at the higher pricepoint.

So how have we seen investors respond to this weakened demand outlook on the commodities front and interest rate hike fears out of the Fed? The news and movements have prompted investors to flee mid and small-cap resources stocks in favour of mining giants like BHP within the materials sector, while on a broader basis, we saw investors sell-off energy stocks in favour of buying into the high-growth tech sector and consumer discretionary stocks this week.

On the local market from Monday to Thursday, the ASX was able to shake off some of the negative offshore macro-economic events and benefit from the RBA commenting it may pause and assess the impact its interest rate hikes.

While the energy sector weighed down the market with a near 3% sell-off, the information technology sector rose 4.73% to offset the losses and drove the market to a positive finish over the four-day period.

And the stocks that led the market gains from Monday to Thursday were headlined by Invocare soaring almost 38% on receipt of a takeover approach from TPG Global worth \$1.8bn, Xero adding over 15% after the company announced it will axe up to 800 of its staff in a cost cutting measure, and Nanosonics rallied 13.2% for the week so far.

Megaport led the other end of the market, tumbling 10.18% following the surprise resignation of the company's CEO, while Paladin Energy and Ramelius Resources each fell over 8% and over 7% respectively.

Looking more broadly at the All Ords, Weebit Nano jumped almost 30% for the week, and Myer rallied over 26%, while Bravura Solutions fell 46% and Rhythm Biosciences lost 36.46%.

From a Bell Direct client perspective, the most traded stocks were NAB, BHP, Sims, and Bega Cheese.

Clients bought into Rio Tinto and Woodside Energy while taking profits from ANZ, Fortescue Metals Group, Yancoal Australia and DroneShield.

And on the diversification or ETF front this week we saw Bell Direct clients trade the SPDR S&P/ASX 200, Vanguard US Total Market Shares Index ETF and iShares S&P 500 (AUD Hedged) ETF.

Ahead of next week, let's take a look at the economic news and data that might make waves in markets throughout the week ahead.

We may see some movement on the local index on Tuesday when the Westpac Consumer Confidence data for March and the NAB Business Confidence data for February are released, with economists' expecting a rise in consumer confidence but a slight decline in business confidence for the respective periods.

Over in the US, producer price index data for February is out on Wednesday with consensus expectation for a rise of 0.3% down from a 0.7% rise in January. US retail sales data for February is also out on Wednesday, which will give an insight into how retailers across the world's largest economy are faring through the rising interest rate environment. The all-important US CPI data for February is also out on Tuesday with the market forecasting a decline to 6.2% for February from 6.4% in January.

And that's all we have time for today. Have a wonderful Friday and weekend, and happy investing!

- Grady Wulff, Market Analyst