10 May 2019

What's going on in the world?

Weekly market wrap up from PwC Treasury Advisory

- How low can they go? Financial markets were divided as they eagerly awaited the Reserve Bank of New Zealand's (RBNZ) OCR decision on Wednesday. The RBNZ delivered a 0.25% cut to the OCR which now sits at 1.50%. What warranted the need for greater stimulatory monetary policy? The global growth outlook remains a key concern, along with a number of headwinds that business are currently facing which are discouraging investment and growth. The NZD made a run down to 0.6530 as initial reflexes to the cut were to 'sell Kiwi'. After digestion of the RBNZ statement which was not overly 'dovish' the NZD recovered some of its initial losses. Interestingly, to date Kiwibank and ANZ have passed on (although just a portion of) the rate cut to mortgage rates, reducing mortgage rates by 0.15% and 0.10% respectively.

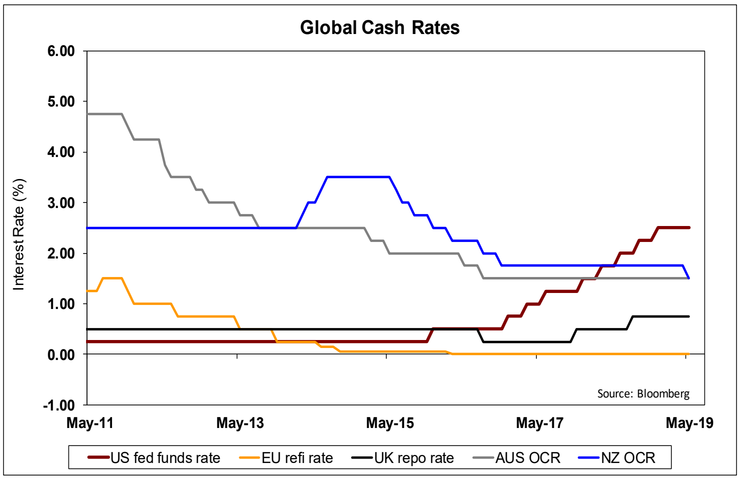
- The US/China trade dispute is increasingly resembling a soap opera with both sides regularly criticising and threatening each other before 'making up' and progressing their relationship. The latest squabble between the two nations looks to have stemmed from Trump's impatience. The President 'tweeted' a desire to raise tariffs to 25% (previously 10%) on USD200 billion worth of Chinese goods today (Friday). Unsurprisingly, China subsequently threated to retaliate if the US proceeded with the tariff increase. Global equity markets (as well as other financial markets) traded sharply lower early in the week in response, however were better supported late in the week after news broke that the Chinese Vice-Premier would travel to the US to resume talks.

- While still exciting (to financial market spectators, economists and the PwC Treasury Advisory team at least), the Reserve Bank of Australia (RBA) delivered less of a market moving OCR decision on Tuesday, keeping interest rates on hold at 1.50%. The RBA remains squarely focussed on the labour market which continues to perform well. On the other hand Aussie inflation and growth seem to be forever chasing forecasts. Financial markets don't appear to be looking at the Australian economy through matching rose-tinted glasses to the RBA. Two interest rate cuts by mid-2020 remain priced in.

- Due to a spread of African swine fever many of the poor piggies in China haven't even had a chance to make it to market. Interestingly, consumer prices in China rose by 2.5%yoy in April up from 2.3%yoy in March. This was entirely driven by an acceleration in food price inflation with pork prices contributing a whopping increase to 14.4%yoy. It appears that China may have undercooked the number of hogs that have been culled, failing to disclose the true impact. In November of last year China made its biggest purchase of US pork in nearly two years (despite having tariffs of 62% on US pork!) and import volumes remain high by historical standards. Furthermore, the quantity of stock feed imported into China (the pigs favourite gluten free, vegan, humble soybean) have dropped markedly from November of last year (down almost 40% - refer to the chart below). Have a great weekend!

Charts of the week

Authors: Nathan Green and Georgia Bowers



Link of the week: ***'Competitive Cities: A Decade of Shifting Fortunes'***

Cash rates across the globe	
	Current
United States (upper bound)	2.50%
New Zealand	1.50%
Australia	1.50%
United Kingdom	0.75%
Eurozone	0.00%

Source: Bloomberg

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