# What's going on in the world?

## Weekly market wrap up by PwC Treasury Advisory

**23 August 2019**

- A slightly technical topic to kick things off this week: the Australian Prudential Regulation Authority (APRA) is going ahead with its proposal to lower limits for Australia's authorised deposit-taking institutions' (ADIs') exposures to related entities. Requirements will fall from 50% of *Total Capital* to 25% of *Tier 1 Capital* (Tier 1 Capital consists of shareholders' equity and retained earnings). The change will potentially restrict the ability for the big four Australian banks who operate in NZ (ANZ, CBA, NAB and Westpac) to inject different forms of capital into their NZ subsidiaries (ANZ, ASB, BNZ and Westpac respectively). The move from APRA is aimed at mitigating the risk that problems in one subsidiary severely impacting the bank's parent. Changes announced will be effective January 2021. This poses a potential predicament, with APRA limiting exposure of Australian banks to their subsidiaries on the one hand, and the RBNZ currently proposing that the four big banks in NZ lift the minimum Tier 1 Capital from 8.5% to 16% on the other. Hmm…

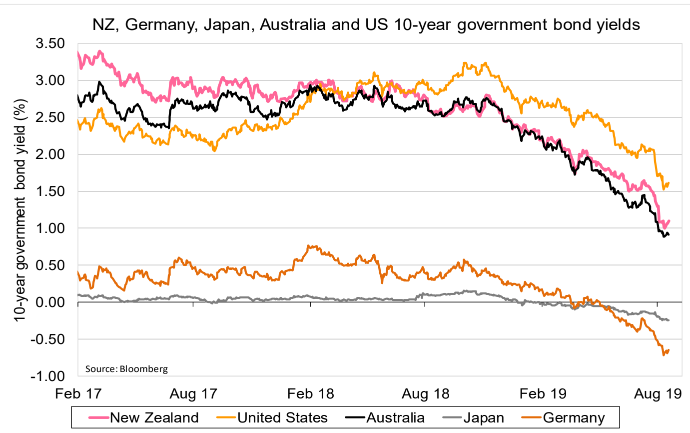
- This week the IMF has warned governments against trying to weaken their currencies through monetary easing or market interventions. President Trump has also ramped up complaints this week tweeting, "We are competing with many countries that have a far lower interest rate, and we should be lower than them. Yesterday, 'highest Dollar in U.S History.' No inflation. Wake up Federal Reserve". Truly poetic isn't it? The IMF has argued that weakening a country's currency through easing monetary policy is unlikely to induce the large and persistent devaluations needed to spur expenditure switching (as a weaker currency makes exports more competitive and reduces demand for other countries' imports). Strangely though, for the US in particular, trade is relatively immaterial to the size of the broader economy, so just like a focus on trade balances, it may be a little off the ball?

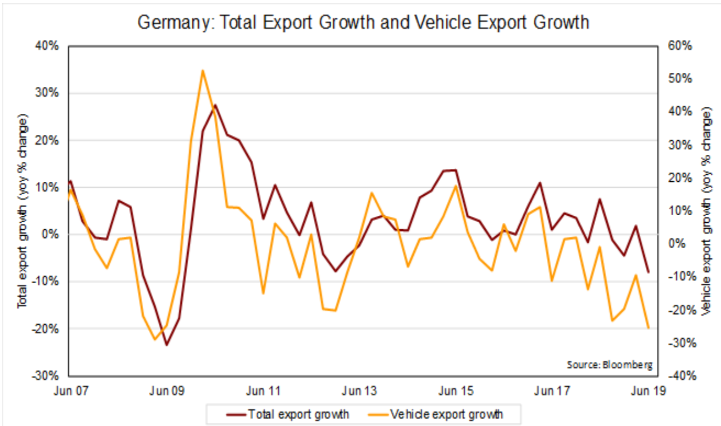
- Minutes from the Federal Open Market Committee (FOMC) meeting released this week showed policymakers were divided on the decision to cut the Fed Funds Rate last month. While a 0.25% cut was made, the minutes stated that two of the ten members favoured no change at all. However, Fed members were united in wanting to signal that they were not on a pre-set path to slash interest rates further. This of course further fuelled US President Trump being 'Fed' up with the central bank. Eager eyes will be watching for any signal the Fed Chairman Jerome Powell delivers over the weekend at the Fed's annual policy retreat in Jackson Hole, as to whether the Fed will continue to turn a deaf ear to Trump's wishes.

- The German economy experienced a contraction of 0.1%yoy in Q2 this year, adding to nervousness that Europe's largest economy will fall into a technical recession later this year (defined as two consecutive quarters of negative growth). German exports fell by a concerning 8%yoy in June (exports contribute to over 40% of GDP). Importantly, car exports, one of Germany's largest industries plunged by over 25%yoy in June. The German government is now under pressure to introduce fiscal stimulus measures to spur domestic output and consumer spending. Finance Minister Olaf Scholz said the government has the potential to put together a 50 billion euro spending package (similar to that used during the Global Financial Crisis), although Sholz would need to find a way around the constitutional rule that limits structural budget deficits to 0.35% of GDP. Among global trade concerns, weak growth and central bank easing, bond yields have tumbled. For the first time, Germany sold 30-year bonds with a negative yield at an auction this week. This is a milestone for a fixed-income market where the entire curve now yields less than zero. Have a great weekend!

## Charts of the week

Authors: Keegan Robbins, Rajeev Verma and Georgia Bowers




***Link of the week:*** ***'Sign up for PwC's introductory corporate treasury management course'***

| 'Big movers' over the past week | | |
|---|---|---|
| | Current | Change over the past week |
| UK: FTSE | 20,817 | +2.43% |
| Shanghai Comp Index | 2,883 | +2.11% |
| Whole Milk Powder | 3,100 USD/mt | +1.99% |
| GBP/USD | 1.2250 | +0.82% |
| NZD/USD | 0.6370 | -0.93% |

*Source: Bloomberg*

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