

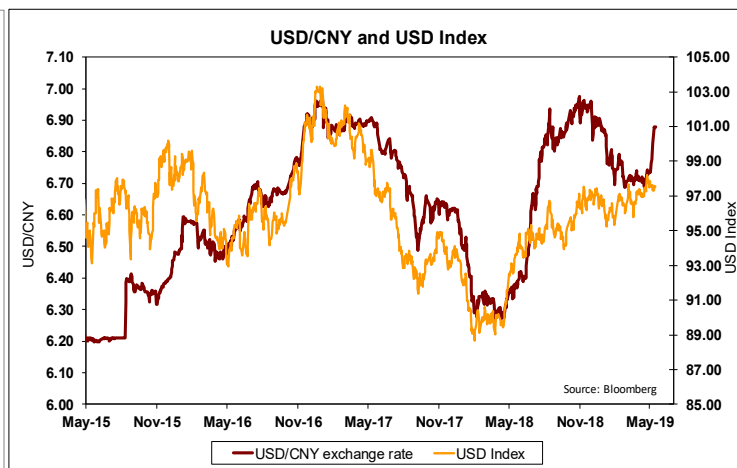
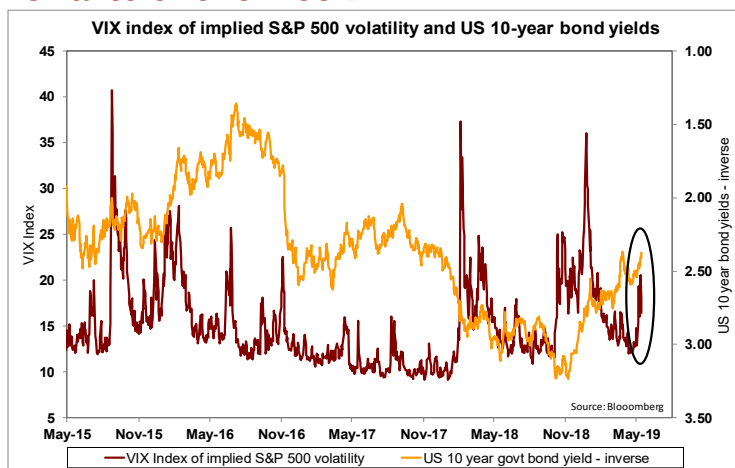
What's going on in the world?

Weekly market wrap up from PwC Treasury Advisory

- A week ago today the announcement was made that the US would increase tariffs from 10% to 25% on \$200 billion worth of Chinese imports. How has the market responded to President Trump's call to up the anti on the trade war with his good pal President Xi? Thanks to Trump publically disclosing his thoughts and feelings on the matter over social media in the lead up to the announcement, the tariff increase was well signposted and therefore market reaction was relatively contained (although there was some move away from typically 'risky' assets). Equity markets temporarily fell, US government bond yields are lower, the VIX index (an indicator for future volatility of the US equity market) spiked to a four month high (refer chart) and the CNY has stumbled down to its lowest level against the USD since early January. We now look forward to the next drama fueled episode of 'Friends' 'Presidents', where there is potential for Trump and Xi to strike a trade deal at the G20 summit in June.
- Key factors pointing toward a strengthening Australian economic outlook: Growth in exports and mining investment projects. Key factors pointing toward a weakening Australian economic outlook: Slowing housing market, constrained credit growth, weak consumption and business confidence, slowing global growth, inflation below target and a new addition to the list... a disappointing employment report. The unemployment rate in April rose to eight month highs of 5.2%, full-time jobs fell and wage growth disappointed expectations. As the Reserve Bank of Australia (RBA) have been banking on labour market strength and a pick-up in wage growth, the market has brought forward expectations for a rate cut by the RBA to July this year.
- It's been one knock after the other for the Chinese economy over the past week. If increased tariffs weren't enough Chinese economic data has done nothing to help the beleaguered economy. Retail sales, industrial output and investment data all slowed from the previous month and underperformed economists' forecasts in April. This is indicating that the Chinese economy was beginning to slip even prior to the latest trade war escalation. As these signs of slowing growth appear, the Chinese Governments long-term growth target of doubling 2010's GDP by 2020 is beginning to look further out of reach. It is expected that more stimulatory monetary and fiscal policy measures will be taken (e.g. tax cuts, increased infrastructure spending, lower policy rates and reductions in bank reserves) to try and curb China's slowing economic growth.
- Lastly, lets full circle back to the inescapable and forever evolving topic of global trade. Rumour has it that the US are close to resolving a dispute of tariffs on steel and aluminium imports from Canada and Mexico (although we know how frequently these things can flip-flop). A done deal would boost the chance of ratification of the US-Mexico-Canada agreement (USMCA), a deal that seems to have been pushed to the side lines amongst global trade mayhem. This will be welcomed by the Canadian economy whose economic growth has taken a hit from trade uncertainty. Despite this, the CAD has been supported by remarkable Canadian employment growth figures in April (106,000 net jobs added vs 11,600 expected) and inflation picking back up to the Bank of Canada's 2.0%yoy target. Have a great weekend!

Charts of the week

Author: Georgia Bowers



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

Exchange rate movements over the past week		
	Current	Change over the past week
USD index	97.86	0.54%
USD/JPY	109.85	-0.09%
EUR/USD	1.1174	-0.53%
NZD/USD	0.6540	-0.90%
AUD/USD	0.6893	-1.56%
GBP/USD	1.2795	-1.56%

Source: Bloomberg

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