

What's going on in the world?

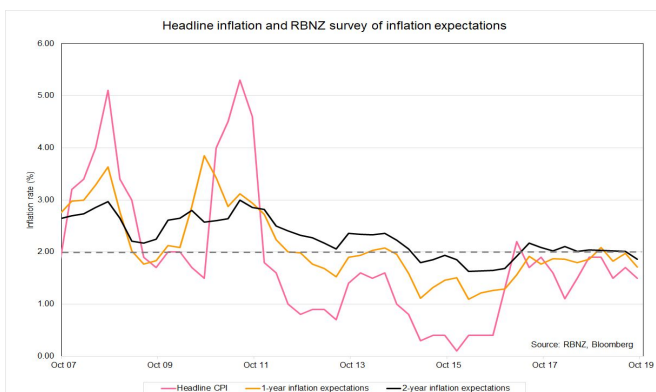
Weekly market wrap up by PwC Treasury Advisory

18 October 2019

- It appears NZ inflation has caught onto the tailwind of Eliud Kipchoge's sub-two-hour marathon, making a run further below the RBNZ's 2% target. The NZ CPI for Q3 came in at a soft 1.50%yoy. While inflation has softened from 1.7%yoy in Q2, it was a slight surprise to the upside with the RBNZ only looking for a dismal 1.3%yoy. What's more important for the RBNZ when making decisions on monetary policy is the forward-looking outlook for inflation. With the outlook for growth softening, firms reporting weaker demand and inflation expectations easing, the RBNZ will likely need to continue adding monetary policy stimulus, or perhaps offer to build a tag-team with the Government to include fiscal policy development.
- Unlike the All Blacks line-up to face Ireland in the world cup quarter final, 'strong' would not be the adjective of choice to describe NZ manufacturing data for September. The manufacturing PMI printed at 48.4, its third consecutive month in contractionary territory. The services sector PSI kept its head above water at 54.4 (exactly at the economy's long-term average over the past 12 years), although ticked down from 54.6 the previous month. A close watch will be kept on whether weakness in the manufacturing sector will flow through to services, which would likely prompt greater action from the RBNZ.
- A spec of colour returned to the global outlook canvas early this week following a 'mini' trade deal between the US and China. China has committed to buying more US agricultural goods while the US is suspending the extra 5% of tariffs on \$250b of Chinese imports that were set to be implemented this week. Taking a step back however, it is very possible that negotiations will go from a flip to a flop, as we are yet to see a breakthrough on key underlying issues such as technology and intellectual property. The IMF has revised the global growth outlook for 2019 to 3.0% this week from 3.2% in July, stating that the US-China trade war is set to cut global growth to its slowest pace since the 2008-2009 GFC.
- The GBP has been a top performer in FX markets this week following headlines that UK PM Boris Johnson has secured a new Brexit deal with the EU. The deal proposes a customs border between Ireland and Great Britain on the Irish sea, circumventing a hard customs/regulatory land border between the Republic of Ireland and Northern Ireland. This Saturday, Parliament will sit for a special vote. Getting the deal over line will likely prove difficult with significant support needed and many openly dismissing the deal in its current state. If the deal is rejected, the next move in the game of 'Brexit and Ladders' (two steps forward five steps back) is likely a 'Brextension-extension'. Have a great weekend!

Charts of the week

Authors: Matt Stewart, Rajeev Verma and Georgia Bowers



Link of the week: ['Journeys to Treasury - excellent case studies'](#)

| 'Big movers' over the past week | | |
|---------------------------------|---------|---------------------------|
| | Current | Change over the past week |
| NZX 50 | 11,142 | +2.00% |
| GBP/USD | 1.2890 | +1.74% |
| EUR/USD | 1.1125 | +0.75% |
| USD index | 97.58 | -0.73% |
| Iron ore (USD/MT) | 90.00 | -3.07% |

Source: Bloomberg

Get in touch with our Treasury Advisory team if you'd like to know more:

Stuart Henderson
Partner
stuart.r.henderson@pwc.com
021 343 423

Brett Johanson
Partner
brett.a.johanson@pwc.com
021 771 574

Chris Hedley
Executive Director
chris.m.hedley@pwc.com
021 479 860

Alex Wondergem
Director
alex.j.wondergem@pwc.com
021 041 2127

Tom Lawson
Associate Director
tom.f.lawson@pwc.com
027 421 0733

Jason Bligh
Associate Director
Jason.p.bligh@pwc.com
021 386 863

www.pwc.co.nz/treasury-advisory

[Test your fx sensitivity with fxsnap](#)

