

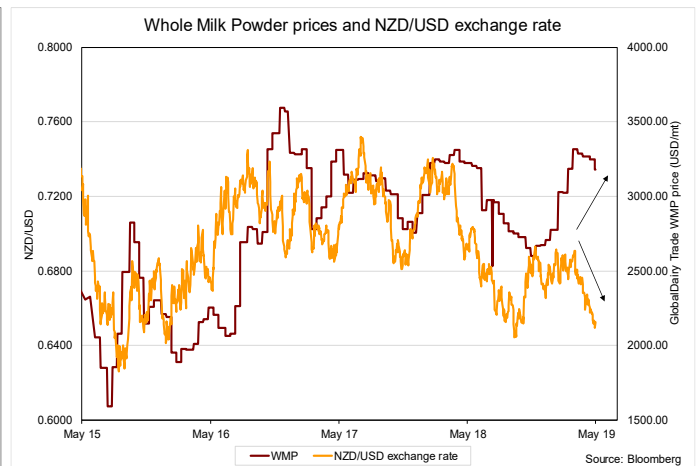
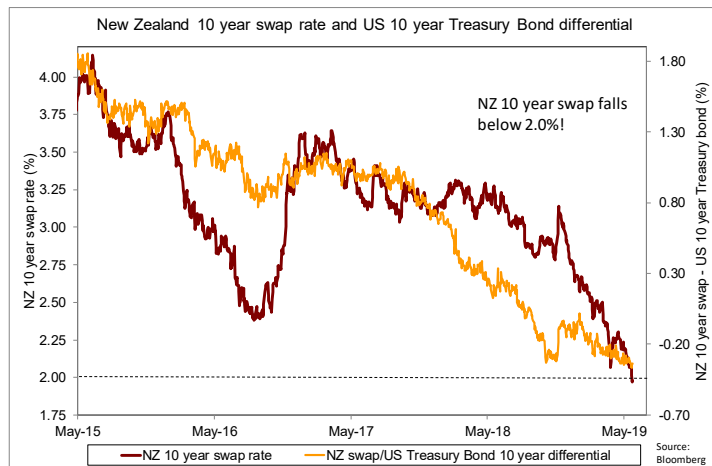
What's going on in the world?

Weekly market wrap up from PwC Treasury Advisory

- 'Hu-a-wei' to judge, but after coming agonisingly close to a trade deal US-China trade negotiations have come full circle threatening to escalate back into a tit-for-tat trade war. The latest escalation in trade tensions came after US President Trump put Huawei Technologies on a trade blacklist amid security concerns that Huawei is closely connected with the Chinese Communist Party. This caused a sell-off of US technology stocks, dragging the S&P 500 and Nasdaq Composite Index down by 1.2% and 1.6% respectively post the announcement. US-China trade rhetoric deteriorating, coupled with weaker US Manufacturing and Services PMI data released overnight (increasing the chance of a rate cut by the US Federal Reserve), the NZ 10 year swap rate has fallen below 2.00%.
- Financial gain need not be a casualty of responsible investment. There is growing consensus that investing in purpose-driven organisations has a positive correlation with asset performance. S&P rolled out its S&P 500 ESG Index in April this year in response to increasing demand for investments that fulfill environmental, social and governance (ESG) objectives without compromising investment objectives. This has been followed by a new family of indices including ESG versions of its well-known country and regional large and midcap benchmarks on 21 May. The S&P 500 ESG Index tracks the benchmark index (theoretically targeting a similar risk and return profile), but excludes tobacco, controversial weapons and companies not in compliance with the UN Global Compact (UNGC). Furthermore, those with S&P ESG scores in the bottom 25% of companies globally are also excluded. To pacify the ESG-investment sceptics, the rationale behind matching the risk and return profile of the new index to the benchmark S&P500 is to dispel the myth of an ESG performance-trade-off. If ESG investing becomes truly mainstream there should be little difference between the ESG index and the main index. Watch this space.
- The Global Dairy Trade Index fell in the last auction of the 2018/19 season this week (21 May), ending a run of 11 consecutive higher auctions. Lower whole milk powder (WMP) and butter prices lead the decline (-2.1% and -3.2% respectively), however most dairy products on auction also traded lower. Chinese demand, which has been an important reason for the higher dairy prices throughout the season, was slightly weaker at this week's auction. This coincided with the sharp fall (c. 2%) in the Chinese Yuan since the previous auction (7 May). WMP prices historically have a positive correlation with the NZD. However, despite WMP prices remaining at elevated levels in recent months, the NZD has continued to track lower due to the lower domestic interest rate outlook and concerning global external factors (refer chart).
- What goes up must come back down. In the Aussie dollar's case this has all happened in just one week. The AUD opened higher on Monday, reaching 0.6930 on the back of news that Australia's sitting Prime Minister Scott Morrison claimed victory in the Federal election over the weekend. The Liberal/National Coalition in power presents a moderate boost to business and housing sentiment, compared to the widely expected Labor win. With Labor being consistently ahead in the polls, some have compared this surprising result to the Trump triumph in 2016. Albeit attracting slightly less attention and eyebrow raising. Later in the week the Reserve Bank of Australia (RBA) Governor Lowe warmed markets (even more) to the idea of a rate cut(s), stating that the RBA's forecasts for unemployment and growth had already built in two 0.25% cuts to the OCR in 2019, and therefore "at our meeting in two weeks time, we will consider the case for lower interest rates". Greater evidence for a lower interest rate environment knocked the AUD back down to 0.6872. Have a great weekend!

Charts of the week

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

Global equity markets		
	Current	Change over the past week
Australia: ASX 200	6,492	+1.99%
NZ: NZX 50	10,263	+0.81%
China: Shanghai Comp	2,853	-1.03%
US: S&P 500	2,822	-1.30%
Germany: DAX	11,952	-2.34%
UK: FTSE	20,136	-4.59%

Source: Bloomberg

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