What's going on in the world?

Weekly market wrap up by PwC Treasury Advisory

29 November 2019

The RBNZ released its Financial Stability Report (FSR) this week. Probably the key point of the relatively humdrum report included no change to loan-to-value ratio restrictions on bank mortgage lending (given the risk of a resurgence in high risk lending given current low interest rates). Unsurprisingly, it was highlighted that the financial system is exposed to risks from the highly indebted household and agricultural sectors as well as the reliance on banks with offshore lending given ongoing international global risks. Financial markets reaction to the FSR was close to none as focus remains on the RBNZ final bank capital decision next Thursday 5 December. This will shed some eagerly-awaited light on whether to expect a further contraction in the bank sourced credit market.

This week also provided investors with a hint of optimism from some stronger US economic data. The second estimate of Q3 GDP indicated the US economy growing at an annualised 2.1% (1.9% previously). Core durable goods orders (for October) also came in better than expected, suggesting a potential recovery in in business investment. In the lead up to the Thanksgiving holiday, equity markets gave gratitude to the more positive US data, continuing their gradual climb higher to record highs. The data dump wasn't all good news however: Q4 growth is looking shaky, following soft real consumer spending figures for October, a factor that had been a key driver of US growth over 2019.

With climate change pushing to the forefront of global concerns, its effects have definitely been felt in coffee prices throughout November. Coffee prices increased more than 25%, with coffee futures up to $1.17 a pound from mid-October lows of $0.93. Combining coffee inventory drawdowns and a decrease in harvests across Latin America (due to less rain), coffee supplies are stretched while demand remains strong. This trend is likely continue with global coffee production expected to decline by 0.9% for the 2019-20 marketing year due to an off-year in the crop cycle of South American producers. Meanwhile, coffee consumption growth is expected to rise globally, largely driven by strong demand from nations in Asia and the Pacific regions.

Conflicting NZD drivers released on Thursday saw the Kiwi whipsaw around 0.6420. To get things started (1) President Trump signed a bill supporting pro-democracy protesters in Hong Kong despite China's disapproval (the NZD swiftly fell). This is likely to give the old US-China trade war pot a good (yet very undesirable) stir. Then (2) the ANZ Business Outlook Survey for November saw NZ business confidence warming up after the winter chill, reaching the highest level this year (the NZD just as swiftly bounced back up). The improvement in confidence reduces (although does not remove) the risk of further OCR cuts by the RBNZ this cycle. Happy Black Friday and have a great bargain of a weekend!

Charts of the week

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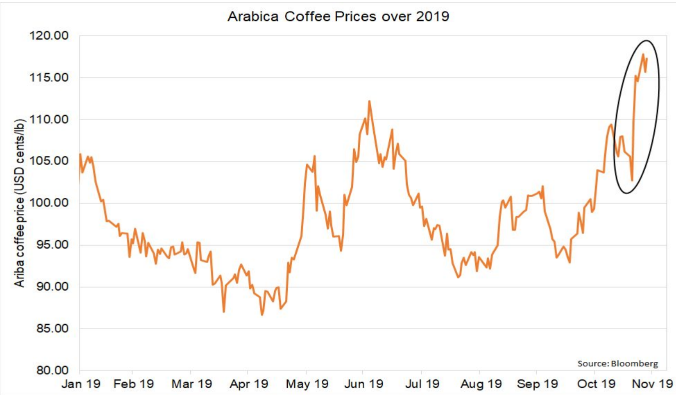

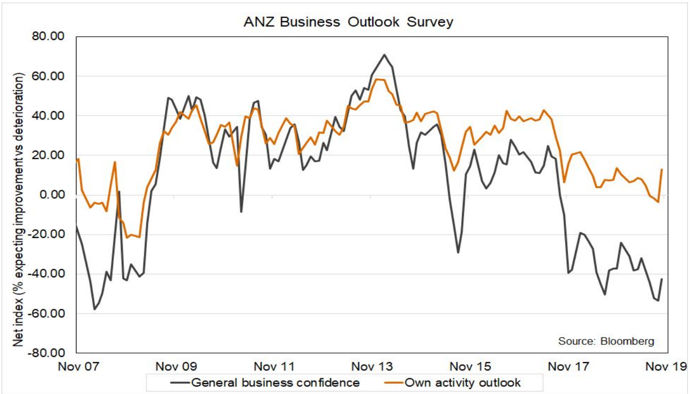

Link of the week: ***'Sign up to the PwC Treasury Management Course'***

'Big movers' over the past week		
	Current	Chg over week
Arabica Coffee (USc / lb)	117.30	+6.93%
NZX 50	11,297	+3.21%
Copper LME (USD/t)	5,926	+1.50%
S&P 500	3,154	+1.39%
NZ 10y swap rate	1.48%	-1.82%

Source: Bloomberg

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