What's going on in the world?

Weekly market wrap up by PwC Treasury Advisory

6 December 2019

The wait is finally over - yesterday the RBNZ announced its long-awaited decision on the proposed bank capital. As expected, the banks were 'bent over and given 6 of the best'. Fortunately, following a long consultation, the RBNZ opted not to use a run-up, but instead only did it from a standing position. The RBNZ ratcheted up the level of capital banks will require, while the composition of that capital is now slightly wider than first proposed, providing the banks with more flexibility. The RBNZ also extended the implementation period from 5 to 7 years (as widely expected). One point which was relatively quiet in the coverage was the scaling of the major banks internal models and the need to dual report from early 2021. This change is designed to level the playing field and will be an important driver of corporate bank pricing in 2020...

Softer-than-expected US ISM surveys helped weaken the USD index this week. The ISM Manufacturing Index slipped to a near-decade low of 48.1 in November, missing expectations of a recovery to 49.2. The Non-Manufacturing Index also declined slightly to 53.9, indicating that weakness in the manufacturing sector is beginning to creep into services. Fortunately, the more forward-looking 'new orders' component and employment index picked up. So, while the US economy may have a sluggish period of growth to come, there is some sense of stability. This makes the US Federal Reserve cutting interest rates again look relatively unlikely.

The RBA kept interest rates on hold at its 3 December monetary policy meeting. While the central bank is comfortable to sit on the sidelines and assess the impacts of this years 0.75% of OCR cuts, it has signalled that it is prepared to ease monetary policy further if needed. How much lower could rates go? RBA Governor Lowe signalled at his speech on unconventional monetary policy last week that the OCR could reach 0.25% before they would consider introducing QE. Bare in mind that Governor Lowe is not a fan of negative interest rates. An underwhelming Australian GDP growth (and retail sales) for Q3 was released later in the week, disappointing expectations slightly. The NZD/AUD cross rate has subsequently reached a four-month high of 0.9590.

The complex (and volatile) relationship between the US and the rest of the world took another series of twists this week. Reports emerged that President Trump is planning to re-impose tariffs on aluminium and steel imports from Argentina and Brazil; also on the EU (responding to EU subsidies for Airbus). He also has his eye on French products in response to a tax on digital revenues imposed on US tech companies. Markets viewed this as negative for the US economy with additional tariffs essentially acting as a tax on the US economy. US trade talks with China around a Phase 1 trade deal are supposedly on track. However, Phase 1 is only the beginning with much more gruelling negotiations to come. Have a great weekend!

Charts of the week

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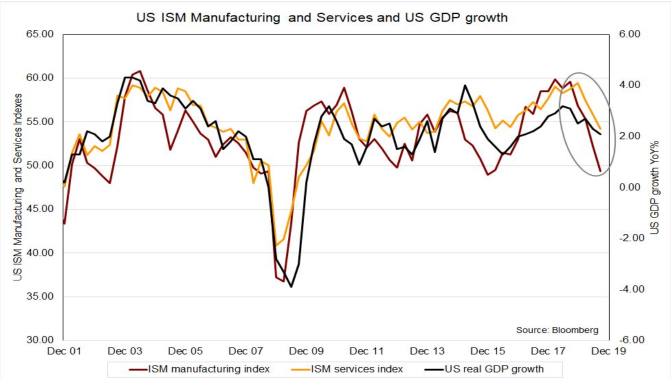

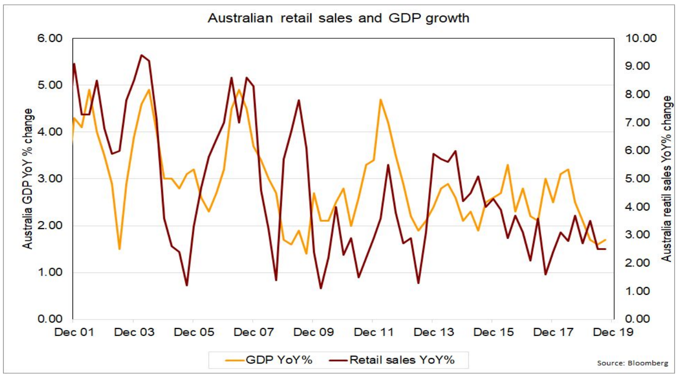

Link of the week: ***'PwC November Treasury Broadsheet Newsletter'***

'Big movers' over the past week		
	Current	Chg over week
NZ 10y swap rate	1.64%	+10.47%
WTI crude oil (USD/bb)	$58.43	+5.91%
Iron Ore (USD/mt)	$88.34	+4.32%
NZD/USD	0.6545	+1.95%
ASX 200	6,683	-2.38%

Source: Bloomberg

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