What's going on in the world?

Weekly market wrap up by PwC Treasury Advisory

13 September 2019

- The European Central Bank (ECB) last night announced its biggest package of rate cuts and economic stimulus in three years, as President Mario Draghi warned governments that they needed to act quickly to revive flagging Eurozone growth. The ECB cut interest rates further into negative territory (by 10bp to -0.50%) and revived its contentious €2.6tn bond buying (QE) programme. While the quantum of QE was lower than the €30b per month expected by analysts (€20b per month), the ECB exceeded expectations on the duration by saying it would continue until shortly before the ECB starts raising rates (i.e not anytime soon). It also eased lending terms for eurozone banks and offered them tiered interest rates in a bid to ease the pressure on their lending margins. The decision by the ECB initially pushed the euro lower, but that was short-lived. Within hours, the currency was sitting 0.3% higher on the day against the dollar, at $1.104.

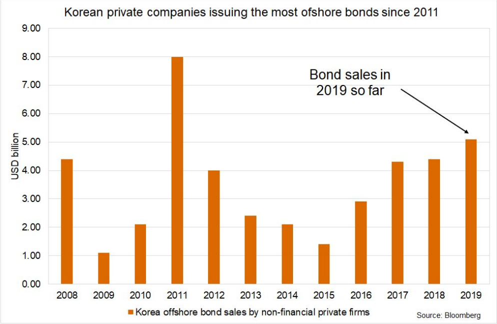
- The sustained period of global growth and trade uncertainty appears to have created a 'beer goggles' effect over the eyes of hopeful investors. Investors are chasing yield all across the globe, to the point that South Korea (an economy in a full blown trade spat with Japan and GDP growth forecasted at the slowest rate in a decade) is becoming increasingly attractive. Strong demand for high-grade debt has seen Korean private company bond issuance increase to an eight-year high. This is somewhat surprising at a time where the trade war with Japan is only escalating. This week, South Korea filed a complaint with the WTO around Japan removing Korea's preferential trade status for three materials critical to South Korean technology companies. South Korea believes this has violated WTO rules by regulating trade for political reasons.

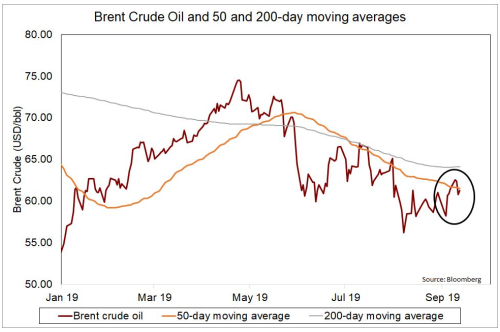
- The operator of the Hong Kong stock exchange, Hong Kong Exchanges & Clearing (HKEX) launched a surprise £31.6 billion takeover bid for London Stock Exchange Group (LSE) on Wednesday. The offer received a cool reception from the market and shareholders and is expected to be formally rejected by the LSE in coming days. The board of the LSE, which struck its own blockbuster deal last month with the $27bn acquisition of data and trading company Refinitiv, described the offer from HKEX as "unsolicited, preliminary and highly conditional". The takeover bid, should it progress, would face serious hurdles, having to navigate the uncertain political landscape in both the UK and Hong Kong, as well as EU regulators. It would also put the Refinitiv deal in jeopardy. In 2017, EU regulators blocked a proposed £21 billion merger between the LSE and Germany's Deutsche Boerse, on grounds of creating a financial monopoly.

- Oil prices shot out of the gate this week following big news in the oil industry that Saudi Arabia appointed a new energy minister - Prince Abdulaziz bin Salman who happens to be the half brother of the Crown Prince. The new Minister announced that he would look to maintain pressure on retaining OPEC production cuts to keep prices supported. Thought we were going to make it through a whole market wrap up without mentioning the financial market puppeteer, President Trump? We tried, however… oil prices have fallen 3% off these highs after Trump fired his national security advisor John Bolton (Groundhog Day? It certainly wasn't 'third time lucky' for Bolton), as Trump has spoken about easing sanctions on Iran to pave the way for a meeting with the Iranian president, a move that Bolton was opposed to. Have a great weekend!

Authors: Tom Gray, John Hepburn and Georgia Bowers

Charts of the week





Link of the week: ***'Our Planet: Our Business at PwC'***

'Big movers' over the past week		
	Current	Change over the past week
US: 10y Treasury Bonds	1.77%	+13.54%
Iron Ore (USD/mt)	94.14	+5.25%
USD/JPY	108.07	+1.08%
WTI crude oil (USD/bbl)	55.09	-2.53%
NZX 50	10,906	-2.80%

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

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