

## The month ahead – December 2019

As 2019 draws to a close, equity market gains are showing little signs of slowing with the three major indices in the US making fresh record highs in November. It's a similar story in Europe with the DAX at its highest level since early 2018 and in France, the CAC 40 made a new multi-year high.

Despite the holiday season nearing, there's plenty on the cards in December, and here's what ANZ is eyeing as the year comes to a close.

### **UK election**

The Brexit saga will continue into year-end when on 12 December the UK holds a general election, its third since 2015.

Conservative Party leader Boris Johnson risks becoming the shortest-serving UK prime minister, a risk he is willing to take as he pushes for a majority in Parliament to get his Brexit deal passed. Should the Conservative Party win an outright majority – a distinct possibility given current polling – Johnson could push through his Brexit deal smoothly and before the new 31 January deadline.

However, a strong showing by Jeremy Corbyn and Labour could extend the stalemate in UK Parliament, heightening uncertainty, which is likely to bring with it more volatility for UK investors. And should Labour win a majority – unlikely given current polling – a complete new deal would be tabled in Parliament with the possibility of a referendum on the deal.

A key aspect to watch as the election unfolds is where the smaller parties including the Liberal Democrats, Greens and the Scottish National Party (SNP) sit, especially if no major party wins a majority.

### **Christine Lagarde's first ECB meeting**

On 12 December, the European Central Bank is set to meet for the first time with Christine Lagarde at the helm. The former head of the International Monetary Fund takes the reins at a perilous time in Europe, with growth waning (Europe's largest economy, Germany just missed dipping into recession last quarter) and geopolitical tensions bubbling away.

Going forward, one thing that may become pertinent under Lagarde is the use of monetary policy to fight climate change. Before her appointment, Lagarde said the purchase of green bonds by the ECB would be something she would explore.

As for the 12 December meeting, the ECB is expected to sit tight on monetary policy, keeping the refinancing rate at 0% and the deposit rate at -0.5%.

## The Reserve Bank of New Zealand to reveal its bank capital decision on 5 December

On 5 December, the RBNZ is set to reveal its decision on a proposal to make local banks hold more capital.

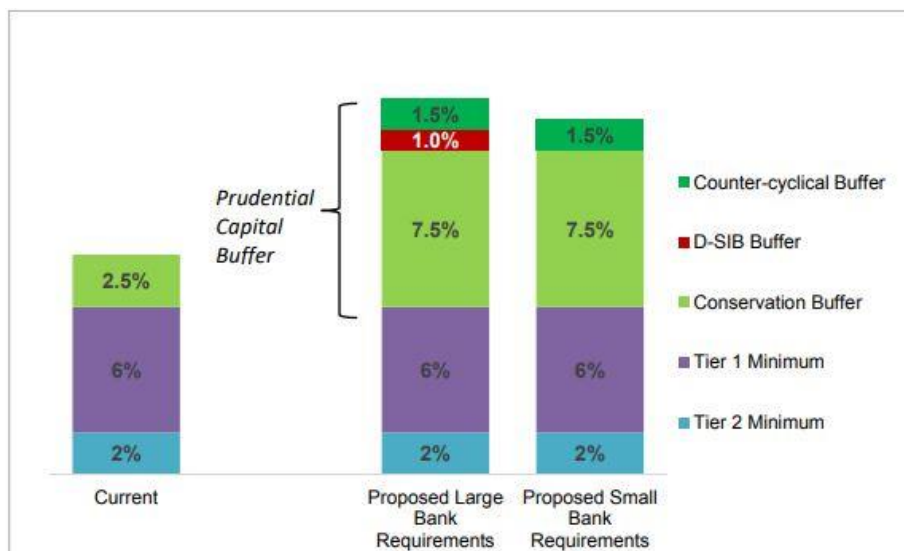


Chart showing current and RBNZ's proposed capital ratio requirements, released by RBNZ, January 2019.

**D-SIB buffer:** Domestic systemically important bank buffer.

Whatever the outcome, the decision will garner much attention from local investors.

## New Zealand GDP

On 19 December, Statistics New Zealand will release figures for third-quarter GDP. During the quarter, the RBNZ cut interest rates in an attempt to offset falling demand for local goods and services. The GDP figures should help ascertain the effect of the rate cut on the local economy and will be a good barometer for further policy change by the central bank.

## Where we stand

As global equity indices crept to new highs we kept our overweight position in international equities. While the US and China have yet to compromise on a trade deal, accommodative monetary policy is offsetting any concerns. Furthermore, we are slowly seeing a bottoming in key manufacturing data points.

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