The month ahead – November 2019

Coming off an upbeat October that saw trade tensions between the US and China ease and a breakthrough in the years-long Brexit saga, November is shaping up as yet another busy month for financial markets. While global markets will again take their lead from the ongoing geopolitical issues, this month is set to be an important one in New Zealand with an interest rate cut on the cards and a raft of economic data.

Here's what ANZ is watching out for this month.

The US and China could sign phase one of the trade deal

Trade tensions between the US and China eased in October and now optimism is building that phase one of a trade deal could be signed at the APEC meeting in Santiago, Chile, on 16-17 November. Given optimism around the deal, it is worth noting some of the aspects of the deal.

1. A pause in some tariff escalation: If a deal is struck, it is likely to see the US drop the $160 billion in goods it has threatened to tariff beginning 15 December. These tariffs include consumer items such as smartphones and toys.

2. Currency concessions: The deal will see the US lift the "currency manipulator" tag it placed on China.

3. An increase in agriculture purchases: The deal will see China increase its soybean and pork purchases from the US. The farming sector is an important constituency to President Trump ahead of the 2020 election.

4. The deal will not include any concessions by the US on Huawei. The telecommunications company is blacklisted by the US, restricting its capacity to work with American companies.

What direction will Brexit take?

The first decisive breakthrough in the years-long saga came when the European Union agreed to the Brexit deal tabled by UK Prime Minister Boris Johnson. However, this deal was rejected by the British Parliament and, as the deadline neared, the EU granted a further extension to 31 January 2020.

After securing a general election for 12 December, Johnson will attempt to win control of the House so he can push his Brexit deal through before the new deadline. Given the potential ramifications of the UK's exit of the EU, we expect volatility in the British pound to remain elevated.

The Reserve Bank of New Zealand is set to cut interest rates again

The Reserve Bank of New Zealand will meet on 13 November where market pricing suggests it will cut the Official Cash Rate to a new all-time low of 0.75%.

While second-quarter inflation data marginally beat expectations, most data points in New Zealand remain on the softer side. Consumer and business confidence levels hit decade lows in October, and business and services PMI (Purchasing Managers' Index) data stayed below 50, considered contractionary territory. Moreover, given the central bank does not meet until February, it will seek to stay ahead of the curve. As at 30 October, interest rate markets are pricing in a 25 basis point cut.

A slew of New Zealand economic data

Before the Reserve Bank meets on 13 November, Statistics New Zealand will release the third-quarter employment report. A weaker-than-expected report would likely cement a 25 basis point rate cut, but the employment market remains one of the strong pillars of the New Zealand economy, with the unemployment rate near its all-time low around 4%.

The slew of economic data continues with the release of third-quarter retail sales figures, which will indicate whether New Zealand consumers are still spending amid slowing global growth and falling consumer confidence. After rising 0.2% in the second quarter of 2019, analysts are expecting an increase of around 0.5% for the third quarter. Quarterly retail sales figures have not declined since 2015.

Elsewhere, business confidence data remains an important bellwether for the New Zealand economy. Despite the Reserve Bank easing monetary policy, it is yet to flow through to businesses, with confidence levels at decade-lows. Given this, we will be monitoring the ANZ Business Confidence Index, which is scheduled for release late in November.

Capping off November, the Reserve Bank will publish its six-monthly Financial Stability Report. The report assesses the soundness and stability of the financial system and will outline any policy measures required, should it see fit. In its May report, the central bank said elevated levels of household and dairy farm debt were a concern and added that financial institution conduct is paramount for success in the finance industry. This month, the Reserve Bank will reassess the loan to value ratio restrictions. With mortgage rates at all-time lows, a reduction would likely provide a short-term boost to house prices.

Cautiously optimistic

During October, we maintained our small overweight position in international equities. Progress in the US-China trade war eased some concerns, but we note there is a long way to go to resolve the conflict. Also, geopolitical tensions in Hong Kong and Europe remain elevated. However, with central banks maintaining an accommodative stance and talks of fiscal policy have us cautiously optimistic on the global economy.

We continue to track key recession indicators, including; an inverted yield curve, labour market strength and both business and consumer confidence.