

What's going on in the world?

Weekly market wrap up by PwC Treasury Advisory

22 May 2020

The market has now had some time to digest last week's RBNZ monetary policy meeting and the Government's significant budget package. After a strong tender of bonds from New Zealand Debt Management this week the 10-year government bond yield fell 6bps to 0.62%, while the NZ 10-year swap rate remains at its record low of 0.60%. Following comments from the RBNZ last week that negative interest rates remain an option in the Central Bank's toolkit, Deputy Governor Bascand has this week clarified that, "we are confident we won't be moving to negative interest rates before March next year." This has resulted in the NZ interest rate swap curve now somewhat resembling a Nike-shape swoosh (the same shape that some economists are beginning to predict the global economic recovery could take).

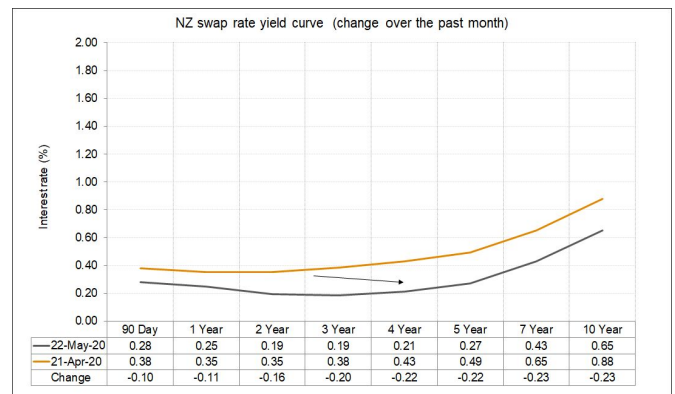
U.S. government finances deteriorated significantly over the month of April with the budget deficit widening to a record \$738 billion, as increased spending on aid for businesses and households was compounded by falling tax revenues. While the deferral of tax payments until mid-July will partially reverse this, the prospect of a further \$3 trillion in stimulus outlined in Congress risks increasing the fiscal deficit to its highest levels against GDP in decades.

Reasonably robust dairy prices continue to provide some level of stability for the New Zealand economy while it remains on the unpredictable COVID-19 trajectory. At this week's Global Dairy Trade (GDT) auction the GDT price index increased by 1.0%, outperforming expectations for further weakness. While whole milk powder, butter and cheese prices softened, a hefty 6.7% increase in skim milk powder (SMP) completely outweighed this. New Zealand SMP continues to trade at a significant premium over European product. Later in the week Fonterra announced their milk price forecast for the 2020/2021 season of \$5.40 - \$6.90 /kgMS. Given COVID-19 unpredictability, the range was widened to \$1.50 from the \$1.00 range for 2019/2020 announced a year ago (\$6.25 - \$7.25).

Global equity markets remain volatile in these extremely testing times. Optimism is slowly creeping into equity markets with the S&P 500 index bouncing back almost 25% from its significant lows in March. This has been fuelled by the reopening of major economies with the help of significant central bank and government stimulus. Investors across the world will be keeping an eye on the tumultuous political relationship between the US and China. Many investors will be hoping for a diplomatic solution to calm the waters, as harsh foreign policy and rhetoric may fuel an unwanted conflict. "Sell in May and go away" could be the newest anxious investor axiom. Have a great weekend.

Authors: Keegan Robbins, Theo Taylor and Georgia Bowers

Charts of the week



Link of the week: ['The Treasury Budget 2020'](#)

'Big movers' over the past week		
	Current	Chg over week
WTI crude oil (USD/bbl)	34.17	+23.98%
NZ 2y swap rate	0.14%	+20.35%
Germany: DAX index	11,066	+7.05%
NZD Trade Weighted Index	69.27	+2.06%
NZ 10y swap rate	0.60%	-5.08%

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

Alex Wondergem
Partner
alex.j.wondergem@pwc.com
021 041 2127

Chris Hedley
Executive Director
chris.m.hedley@pwc.com
021 479 860

Tom Lawson
Associate Director
tom.f.lawson@pwc.com
027 421 0733

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