What's going on in the world?

Weekly market wrap up by PwC Treasury Advisory

24 April 2020

New Zealand's thin and increasingly dysfunctional debt capital markets were thrown an exceptional life line on April 7th with the considerable QE support provided to the LGFA. Leading up to this announcement our CP market was looking very sick with fragile coverage of corporate CP tenders and pricing more than doubling from pre Covid-19 impact levels. There had been no new corporate bond issuance for 4 weeks. Subsequently, LFGA and Kainga Ora (Housing NZ) bond issues have been well supported and the corporate CP market has also benefited from the increased market confidence with significantly improved tender coverage.

Further support from the RBNZ to provide greater liquidity into the market looks to be on its way. The RBNZ is proposing the removal of mortgage loan-to-value (LVR) restrictions (the decision will be confirmed next week). This is aimed to help banks to keep lending. If this goes ahead, lending activity will be monitored and feedback collected by the RBNZ over the next 12 months, which it will then review whether to reinstate LVR restrictions at a later date. Further, RBNZ Governor Orr stated this week that the RBNZ would consider additional stimulus to the $33bn it had committed to QE so far, and that he was open-minded on direct monetisation of debt (buying sovereign debt directly from the Government). As Orr stated, RBNZ support sure is at the "end of the beginning at best."

Oil markets, like households with young children in lockdown, are not operating as normal. WTI crude oil traded at a price of -US$40/bbl earlier this week (yes, negative $40) as producers cannot slow down production quickly enough to match the demand halt and had to pay customers to take product. OPEC+ (with some wishy-washy input from the US) reached an agreement to curb output. However, it was too little too late as economic activity ground to a halt earlier this month and demand for oil hit the skids. The question from here is how long does it take to work through current market dynamics and get back to a more normal market? Or will oil markets ever be the same again? Only time will tell.

Heightened geopolitical tensions have been an ongoing key theme in financial market movements in recent years. COVID-19 appears to creating another flare up in tensions as US President Trump is beginning to play the blame game on the spread of COVID-19 (likely to be an interesting factor in US elections later this year). Trump has pointed the finger at China, criticising their handling of the outbreak, stating that there would be consequences if China were “knowingly responsible”. Similarly, Australia has rallied for support from world leaders for an investigation into the COVID-19 outbreak. Have a great weekend in your bubble!

Charts of the week

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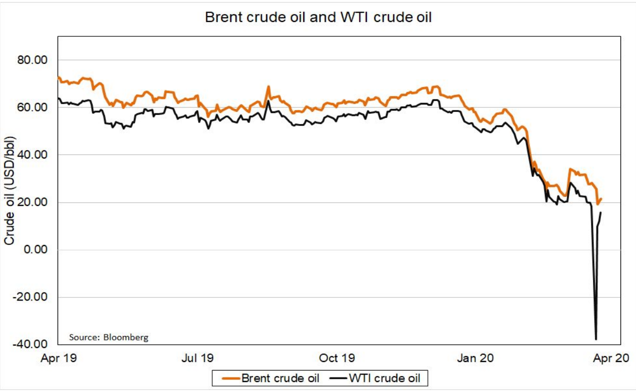

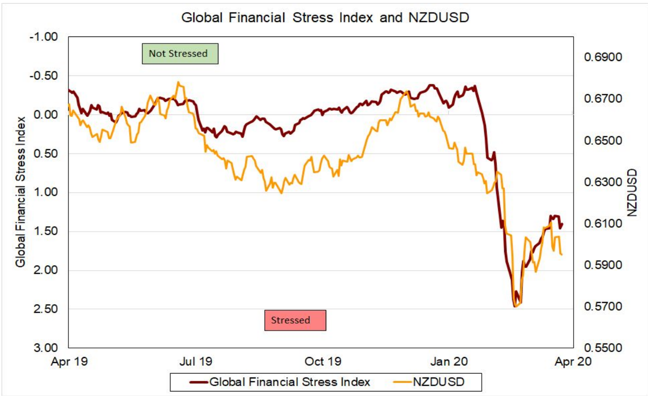

Link of the week: ***‘COVID-19: Safe Harbours and Business Debt Hibernation’***

‘Big movers’ over the past week		
	Current	Chg over week
WTI crude oil (USD/bbl)	15.57	-20.73%
NZ 2y swap rate	0.33%	-9.29%
Whole Milk Powder (USD/mt)	2,707	-4.02%
US 10y Treasury bond yield	0.60%	--4.02%
ASX 200 index	5,217	-3.68%

Source: Bloomberg

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