What's going on in the world?

Weekly market wrap up by PwC Treasury Advisory

8 May 2020

It has been a great week for NZ debt markets. The first cab off the rank was Standard & Poor's (S&P) affirming its 'AA' foreign currency long-term rating and 'AA+' local currency long-term rating on New Zealand; they retained the positive outlook. This puts a very stable stake in the ground for other NZ issuers such as LGFA, Local Authorities, Kainga Ora, Banks and Corporates as the sovereign rating often acts as a governor of others ratings. NZ was one of only two countries (Japan) to have its rating and positive outlook retained by S&P over the Covid-19 crisis period. Importantly, the vote of confidence in NZ's structural and economic resilience helps shore up the NZ banks confidence in terms of their own credit rating outcomes. LGFA tendered $200m on Wednesday and it was an outstanding success with coverage on all bond maturities ranging from 3 to 4 times and borrowing margins continuing to improve (see chart of the week below).

The US Treasury released that it intends to issue around $4.5 trillion of bonds this year to raise funds to finance programmes of economic support during the pandemic. These issuances were skewed more toward longer maturities than the market had expected, subsequently seeing the US Treasury yield curve steepen. Interestingly, and without too much explanation, overnight the market has moved to price in a greater expectation of interest rate cuts by the US Federal Reserve. For the first time futures contracts on the Fed Funds Rate moved into negative territory, despite previous communications from Fed policymakers indicating resistance to negative interest rates.

The spread of COVID-19 and policies implemented to combat the pandemic have shifted consumer behaviour, and thereby how/what they are demanding at an incredible pace. The winners? Big Tech. Shares of Apple, Microsoft, Alphabet (Google), Amazon and Netflix are all trading higher this week. This reflects the increased demand for at-home entertainment, communications, home delivery and data centre services. This has helped drive US equities higher this week, coupled with positive sentiment around the gradual reopening of economies. Amazon's share price, despite missing Q1 earnings estimates and expecting to spend all Q2 profits on COVID-19-related expenses, is trading higher than its peak before the market crash. This perhaps suggests that the market sees the shift in consumer lockdown-driven behaviour as a potentially longer lasting change.

NZ's exceptional food producing abilities have helped provide some sense of stability to our economy over recent months. This week's Global Dairy Trade (GDT) auction delivered a stronger result than expected. Although the GDT index was down 0.8%, this was much better than the feared 5% fall. Demand remained relatively robust, with good buying out of South East Asia, Africa and the Middle East. As if a global recession wasn't enough of a concern for our exporters, many farmers continue to face one of the worst droughts in living memory. The Government has been steadily earmarking funds to provide professional and technical advice to farmers and growers to help them recover from and better prepare for future drought. Have a great weekend!

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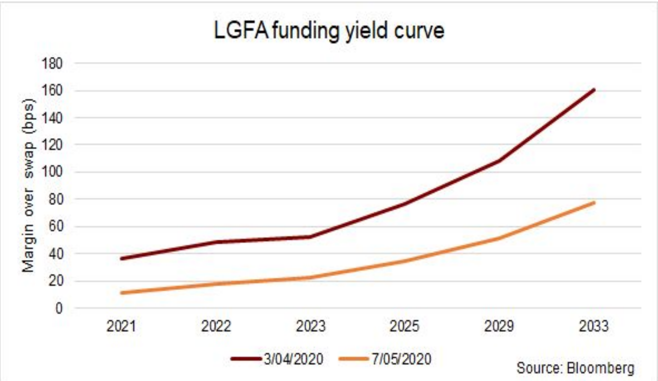
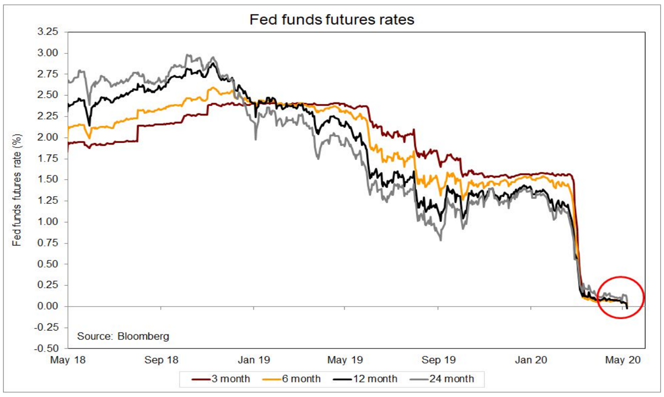
Charts of the week





Link of the week: ***'PwC: May 2020 Treasury Broadsheet Newsletter'***

'Big movers' over the past week		
	Current	Chg over week
WTI crude oil (USD/bbl)	23.55	+19.06%
US 10y Treasury Bond yield	0.64%	+4.76%
NZ 2y swap rate	0.19%	+2.70%
S&P 500 index	2,881	+1.78%
EUR/USD	0.19%	-1.31%

Source: Bloomberg

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