

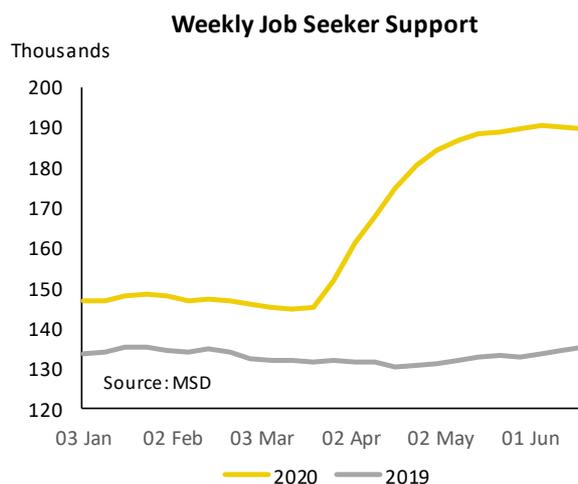
Economic Weekly

29 June 2020

US second wave starts rising

Global investor sentiment softened last week as the number of new COVID-19 cases continued to pick up in some regions of the US, triggering some states, such as Texas and Florida, to backtrack on reopening measures. The pick-up in infections is being tipped as the start of second wave in the US. It is a timely reminder that unless the virus is eliminated there is no return to normal any time soon, with the virus outbreak possibly to continue in waves until a vaccine is found (this could be years away). This also highlights the ongoing economic risks, with many global economic forecasters remaining too optimistic on the rate of economic recovery, particularly over 2021. The global economic recovery from March and April lockdowns will be slow, precarious and unsteady.

Meanwhile, in NZ, where the virus has been eliminated except for imported cases in quarantine, the economic outlook continues to improve, albeit from very low and weak levels. Last week’s consumer confidence figures confirmed a further lift in June. Consumer confidence is still at low levels and consistent with ongoing weakness in consumer spending. However, confidence measures are now a smidge higher than seen during and following the 2008/09 Global Financial Crisis. As we warned last week, the true test for consumer sentiment is yet to come – with the outlook for the labour market key for underpinning consumer confidence. The number of people drawing a Jobseeker benefit appears to have stabilised, after climbing sharply through late March and April. Indeed, the number of ‘work-ready’ people claiming the Jobseeker benefit fell by 1400 over the two weeks to June 19th. While this decline is quite small, down just 1%, it’s the direction of change we are encouraged by. We will continue to monitor this series in our [weekly COVID-19 chart-pack](#), as we do anticipate a renewed lift in benefit applications as the wage subsidy expires for many firms and the lingering financial impacts of the lockdown start to take its toll. jane.turner@asb.co.nz



Recent COVID-19 publications

ASB Economic forecasts and monitoring:

[Quarterly Economic Projections](#)

[ASB COVID-19 Chart pack](#)

[NZ Sector outlook](#)

Financial market trends:

[Corporate Hedging Toolbox](#)

Policy response:

[RBNZ leaves QE target unchanged in June](#)

Where to find support

[ASB financial support package](#)

[Government support package](#)

[COVID-19 alert system explainer](#)

For these publications and more COVID-19 research, see [here](#)

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.6411	0.6429	0.6207	0.6698	DOWN	0.6375	0.6580
NZD/AUD	0.9357	0.9359	0.9334	0.9555	FLAT	0.9250	0.9450
NZD/JPY	68.72	68.73	66.53	72.10	DOWN	67.65	70.00
NZD/EUR	0.5714	0.5739	0.5591	0.5894	FLAT	0.5650	0.5800
NZD/GBP	0.5199	0.5189	0.5026	0.5286	FLAT	0.5005	0.5225
TWI	71.4	71.3	69.8	73.05	FLAT/DOWN	N/A	N/A

^ Weekly support and resistance levels * Current as at 9.30am today; week ago as at Monday 5pm

NZD Recap

The NZD/USD ended last week little changed around 0.6420. This masked some intra-week shifts with the currency hitting a high of 0.6520 mid-week before settling lower.

The RBNZ meeting on Wednesday proved to be the turning point. Not only did the Monetary Policy Committee sound a little perturbed by the currency's recent strength, but it intimidated there is more (easing) work to be done, with a fuller update of the Bank's options likely in August.

NZD/AUD – the NZD cross most sensitive to (relative) monetary policy changes – fell around 60 points on the announcement but has since recovered a little.

Outlook

We've been warning about the RBNZ's intolerance for a strengthening NZD (see for example [here](#)). But we think the more immediate risk to the currency is now a re-strengthening in the USD.

The USD tends to appreciate during times of generalised financial market uncertainty and risk aversion. It has been losing ground in recent weeks as countries have brought COVID-19 to heel and gradually reopened their economies. But the recent surge in infections in the US and other parts of the world could see the USD gain ground again as investors worry about the global recovery hitting a pothole. The 0.6375 support level in NZD/USD is key to watch. A break below here could pave the way for short-term correction back towards 0.6200. NZD/JPY would also be expected to come under renewed downward pressure if risk aversion starts to head higher again. NZD/EUR, NZD/GBP, and especially NZD/AUD would be largely insulated from such.

Our current view is that the 2nd wave of COVID infections affecting some parts of the world won't tip the global economy back into recession. Indeed, this week's top-tier US data releases (ISM manufacturing & non-farm payrolls) will reinforce that the economy is through the worst of the recession in our view. We also expect an improving tone from NZ's key data release of the week – tomorrow's June ANZ business confidence index.

mike.jones@asb.co.nz

ASB foreign exchange forecasts

(end of quarter)

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
	<< actual		forecast >>					
NZD/USD	0.67	0.60	0.63	0.64	0.65	0.66	0.68	0.66
NZD/AUD	0.96	0.97	0.93	0.91	0.90	0.88	0.88	0.86
NZD/JPY	73	65	66	66	66	67	69	67
NZD/EUR	0.60	0.54	0.56	0.55	0.57	0.58	0.60	0.58
NZD/GBP	0.51	0.49	0.53	0.52	0.52	0.52	0.52	0.51
NZD/CNY	4.7	4.3	4.5	4.6	4.6	4.7	4.8	4.6
NZD TWI	73.8	68.8	70.9	71.1	71.7	72.1	73.6	71.4

Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	Year ago	ST Bias	MT Bias
Cash rate	0.25	0.25	0.25	1.50	UNCH	UP
90-day bank bill	0.31	0.30	0.26	1.64	UNCH	UP
2-year swap	0.21	0.23	0.23	1.35	UNCH	UP
5-year swap	0.36	0.35	0.35	1.44	UNCH	UP
10-year swap	0.77	0.72	0.73	1.79	UNCH	UP
10-year govt bond yield	0.94	0.89	0.83	1.57	UNCH	UP
Curve Slope (2s10s swaps)	0.56	0.49	0.51	0.44	UNCH	DOWN

* Current as at 9.30am today; week ago as at Monday 5pm. Key UNCH = Broadly unchanged

Market Recap

Global yields ended the week lower on concerns that the flaring up of COVID cases – now over 10 million globally – could derail the pending economic recovery. Infections have surged in some US states, dashing hopes of a quick revival, with sentiment dented on reports the Phase 1 trade deal between the US and China could be at risk. Daily numbers of new cases are rising in Australia, dampening hopes of a Trans-Tasman bubble and active cases have risen to 20 in NZ.

Yields fell after the dovish policy assessment by the RBNZ. The OCR was held at 0.25% and the \$60bn Large Scale Asset Purchase Programme was maintained. The RBNZ noted the downward skew to risks, agreed to continue with policy easing via asset purchases (our recent [research](#) confirms this has been effective in lowering borrowing costs) and reiterated the willingness to provide additional stimulus in the coming months (including OCR cuts).

Last week's NZ Government Bond tender (\$1,050m) was well supported given \$940m of RBNZ purchases of Government bonds. This has taken cumulative RBNZ asset purchases (including those of Local Government Funding Agency bonds) to just over \$18bn. Despite this, NZ yields widened against US and Australian counterparts, with NZ Government bond yields higher in outright terms across the curve (NZ10Y 0.94%, US10Y 0.64%, AU10Y 0.87%).

Near-term interest rate outlook

Yields are expected to take their cues from the extent to which COVID-19 inhibits the reopening of the global economy. Equity market direction remains a useful guide for yields and curve slope.

Sentiment measures – tomorrow's ANZ NZ Business Outlook and global PMIs – will be looked for signs of further recovery but also flag the fragility of the global backdrop. The June ISM manufacturing index (mkt: 49, prev 43.1) and US Non-farm Payrolls (mkt: 3m, prev 2.5m) should lift further, but uncertainty is high. Forthcoming global inflation data (including this week's US PCE data and Eurozone CPI) will remain low and contain yields.

Policy support has provided a lifeline to global markets and has kept yields low and contained pressures in funding markets. This week's Fed Minutes, speeches by the US Fed (Williams, Brainard), Reserve Bank of Australia (DeBelle), Bank of England (Vlieghe, Haskel) are expected to reaffirm the kitchen sink mantra. The new round of Brexit trade negotiations will take place this week and could impact yields at the margin.

The RBNZ will continue with its trimmed-down \$NZ940m of NZ Government bond purchases and \$50m of LGFA purchases this week. The success of the \$7bn syndication earlier this month has helped to limit the size of the weekly NZ Government bond tenders (just \$1,050m this week). Despite this, we still expect NZ yields to remain above those in the US and Australia.

Medium-term outlook

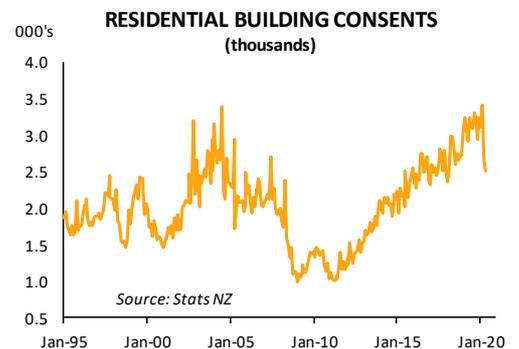
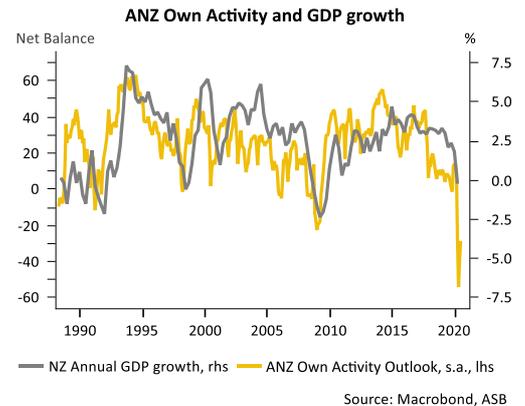
We don't expect the OCR to move above its 0.25% operational lower bound until 2024 at the earliest. If more policy stimulus was needed the RBNZ will likely increase and broaden its \$60bn asset purchase programme before cutting the OCR. Subpar global activity and RBNZ asset purchases should help to cap longer-term NZ interest rates despite a flood of global public debt issuance. mark.smith4@asb.co.nz

Domestic events

Data	Date	Time (NZT)	Market	ASB
ANZ Business Outlook, Own activity next 12 mths, June	30/06	1:00 pm	-	-
NZ Building Consents, Residential, April, %mom	01/07	10:45 am	-	-

The preliminary results for June month business confidence were released earlier in the month. The full results including additional detail) will be released on June 30th. **Business confidence** continued to bounce off April's lows in the early June preliminary results, with the improvement consistent with improving global sentiment and NZ's efforts in containing COVID-19. Nevertheless, underlying levels of sentiment remain very low and employment intentions have remained particularly weak, with the labour market outlook the economy's weak spot.

Residential building consents fell in March and April as a result of the Alert Level 4 lockdown, but the number processed held up better than expected in some regions as workers continued to process consent applications from home. We expect some limited bounce back in May and June, but for construction demand to fall sharply over the second half of the year as a result of the severe economic recession in NZ.



Major International Events for the week ahead*

Data	Date	Time (NZT)	ASB
Australia Credit Growth, May, %mom	30/06	1:30 pm	0.1
RBA Dep Gov Debelle speech	30/06	2:30 pm	-
Eurozone CPI, June, %mom	30/06	9:00 pm	-
Australia CoreLogic Dwelling Prices, June, %mom	01/07	1:30 pm	-0.7
Australia Building Approvals, May, Residential, %mom	01/07	1:30 pm	-10.0
Australia Trade Balance, May, \$bn	02/07	1:30 pm	9.0
US ISM Manufacturing Index, June, points	03/07	2:00 am	51
US Non-farm Payrolls, June, million	03/07	12:30 am	3.0
Australia Retail Trade, May, %mom	03/07	1:30 pm	16.3

Originally published by CBA Global Markets Research on Friday 26th June at 1:36 pm

We expect another soft print for **Australian credit growth** in May. Low turnover in the housing market should keep a lid on housing credit growth. Personal credit is likely to fall with people putting off purchases for big ticket items like cars. We also expect business credit to fall over the next year or so as business investment declines.

Reserve Bank of Australia's (RBA) Deputy Governor Guy Debelle will speak on "The Reserve Bank's Policy actions and balance sheet" during a webinar for the Economic Society of Australia. Debelle is likely to talk through the impacts of the RBA's bond purchases, term repo funding, term funding facility and on the size and composition of its balance sheet.

Australian CoreLogic daily data is showing another moderate fall in **dwelling prices** in June. Sydney, Melbourne, and Perth prices have fallen in the month. The key test for the property market will be how house prices move once the JobKeeper and JobSeeker payments are rolled back later this year.

We expect **Australia's residential building approvals** to fall by 10% in May after a small fall in April. Construction activity is likely to deteriorate with a fall in the rate of population growth and a weak labour market reducing the demand for new construction.

Preliminary data for May shows that **Australia's** good imports fell by 9% while good exports were down by 4%. A fall in car imports and petrol weighed on imports in May. Coal and gas exports were lower while iron ore remained strong. The data released this week will include figures for services which are being heavily impacted by border closures. We expect a solid **trade surplus** of around \$9bn for May.

Preliminary data showed a 16.3% lift in **Australia's retail trade in May** following a massive 17.7% fall in April. There were large rises for clothing and eating out as COVID-19 restrictions were lifted during May. CBA credit and debit card spend indicates that the lift in retail trade continued into June.

Headline Eurozone CPI inflation eased in May to 0.1%yoy because of lower gasoline prices and the sharp downturn in economic activity. The Eurosystem staff foresee annual HICP inflation in the baseline scenario at 0.3% in 2020.

We forecast that the **US ISM manufacturing index** rose to 51 points in June. Already-released regional Fed surveys improved across the board. The majority of the regional surveys moved out of negative territory in June, in line with the gradual unwinding of lockdown restrictions.

We forecast **US Non-farm Payrolls** increased by 3 million in June, but we note that uncertainty is high. Continuing jobless claims remain elevated near 20 million. But unwinding restrictions have enabled some jobs to restart. We estimate the unemployment rate eased to 12.5%. The risk is that the participation rate increased over the month which can slow the decline in the unemployment rate. We expect wages eased by 0.5%mom. Excess spare capacity in the labour market will put downward pressure on wages for some time in our view.

Key Forecasts

ASB NZ economic forecasts

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
		<< actual	forecast >>					
GDP real - Q%	0.5	-1.6	-16.8	14.7	1.1			
GDP real - A%	1.8	-0.2	-17.1	-5.7	-5.1	-3.8	2.7	4.9
GDP real - AA%	2.3	1.5	-3.3	-5.3	-7.0	-7.9	5.1	4.6
CPI - Q%	0.5	0.8	-0.4	0.2	-0.1			
CPI - A%	1.9	2.5	1.6	1.1	0.5	0.1	1.4	1.7
HLFS employment growth - Q%	0.1	0.7	-2.8	-1.6	-1.1			
HLFS employment growth - A%	0.8	1.6	-1.8	-3.6	-4.8	-4.5	1.7	2.7
Unemployment rate - %sa	4.0	4.2	6.3	7.4	7.7	7.0	7.0	6.0
Annual current account balance as % of GDP	-3.0	-2.7	-2.5	-1.9	-1.8	-2.1	-1.0	-0.5

Q% = percentage change on previous quarter

A% = percentage change since same quarter the previous year

AA% = percentage change for year ending quarter since the previous year

ASB interest rate forecasts

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
		<< actual	forecast >>					
(end of quarter)								
NZ OCR	1.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
NZ 90-day bank bill	1.29	0.51	0.30	0.30	0.30	0.30	0.30	0.30
NZ 2-year swap rate	1.26	0.53	0.25	0.30	0.35	0.40	0.40	0.60
NZ 5-year swap rate	1.45	0.63	0.30	0.40	0.50	0.55	0.65	0.85
NZ 10-year swap rate	1.78	0.93	0.65	0.75	0.85	0.90	0.95	1.05
NZ 10-year Bond	1.65	1.03	0.65	0.75	0.85	0.95	1.05	1.15

ASB foreign exchange forecasts

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
		<< actual	forecast >>					
(end of quarter)								
NZD/USD	0.67	0.60	0.63	0.64	0.65	0.66	0.68	0.66
NZD/AUD	0.96	0.97	0.93	0.91	0.90	0.88	0.88	0.86
NZD/JPY	73	65	66	66	66	67	69	67
NZD/EUR	0.60	0.54	0.56	0.55	0.57	0.58	0.60	0.58
NZD/GBP	0.51	0.49	0.53	0.52	0.52	0.52	0.52	0.51
NZD/CNY	4.7	4.3	4.5	4.6	4.6	4.7	4.8	4.6
NZD TWI	73.8	68.8	70.9	71.1	71.7	72.1	73.6	71.4

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Publication & Data Manager

Nick Tuffley
Mark Smith
Jane Turner
Mike Jones
Chris Tennent-Brown
Judith Pinto

nick.tuffley@asb.co.nz
mark.smith4@asb.co.nz
jane.turner@asb.co.nz
mike.jones@asb.co.nz
chris.tennent-brown@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5657
(649) 301 5853
(649) 301 5661
(649) 301 5915
(649) 301 5660

www.asb.co.nz/economics

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