

## US political concerns weigh on markets during March

- Markets continue to wait for US fiscal stimulus plans, and get nervous after the US political failure for healthcare reform.
- RBNZ held the Official Cash Rate at a record low 1.75%, cash returns remain low.
- Bond markets were mixed during March, but yields both here and abroad have risen significantly over the full quarter.

**US President Trump continued to be a major focus for financial markets during March.** The pattern for early 2017 has been one where bond yields, stocks and the US Dollar have moved higher, boosted by optimism about the tax and spending policies of the US President.

However, the details of the so-called “skinny budget” and **the failure to pass new healthcare legislation in late March increased concerns about President Trump’s ability to execute other goals on his agenda** including the promised major tax overhaul investors have been so focused on. Saying that, **despite relatively weak performance in March, the US sharemarket is still significantly above the levels seen prior to November’s election.** The S&P 500 index of US shares was flat over March, but recorded a solid 5.5% return over the first quarter of the year.

In New Zealand, **the NZX50 index of shares fell by 0.8% over the month.** One factor behind the decline was Fletcher Building’s reduced earnings forecast. The company’s share price initially dropped 12% in the wake of the announcement.

**Turning to income assets, a key focus in the US was the Federal Open Market Committee (FOMC),** known colloquially as the Fed. The Fed lifted the US’s key interest rate by 0.25% in March. This interest rate increase was the first of several expected in the US this year. The US 10-year Government bond yield lifted 5 basis points (0.05%) over the month, and is up 62 basis points, (0.62%) over the quarter. In contrast, Australasian Government bond yields were lower over the month. But like US bonds, yields both here and in Australia have moved significantly higher over the full quarter.

**The RBNZ held the Official Cash Rate steady** at a record low 1.75% at its March review. Despite inflation starting to lift back towards more normal levels, the RBNZ seems comfortably on hold for now. **ASB Economics** think the Official Cash Rate is unlikely to change over the year ahead. That suggests the **returns on cash and other short-term fixed interest investments** are likely to remain low over the year ahead too. **The NZD eased against all the major currencies over the month** of March, and is now down around 5% from its mid-February high on a trade-weighted basis.

| Date                   | Instrument                | 31-Mar-17 | Month % | Quarter % | Year % | 5-Year % |
|------------------------|---------------------------|-----------|---------|-----------|--------|----------|
| Cash                   | NZ Official Cash Rate     | 1.75      | 0.00    | -0.25     | -0.50  | -0.75    |
|                        | NZ 90-day bank bill       | 2.00      | 0.00    | -0.14     | -0.34  | -0.74    |
| Fixed Interest         | NZ 5-year gov’t stock     | 2.47      | -0.10   | 0.43      | 0.20   | -1.19    |
|                        | NZ 10-year gov’t          | 3.19      | -0.04   | 0.65      | 0.26   | -0.90    |
|                        | AUS 10-year gov’t         | 2.71      | -0.03   | 0.39      | 0.22   | -1.37    |
|                        | US 10-year gov’t          | 2.42      | 0.05    | 0.62      | 0.60   | 0.25     |
| Australasian Equities  | NZ - NZX50 Capital (NZ\$) | 3388.90   | -0.8%   | 3.1%      | 2.4%   | 64.2%    |
|                        | AUS - All Ords (A\$)      | 5903.80   | 2.5%    | 3.2%      | 14.6%  | 33.6%    |
| International Equities | JAP - Nikkei (¥)          | 18909     | -1.1%   | -1.1%     | 12.8%  | 87.5%    |
|                        | UK - FT100 (£)            | 7323      | 0.8%    | 2.5%      | 18.6%  | 26.9%    |
|                        | US - S&P500 (US\$)        | 2363      | 0.0%    | 5.5%      | 14.7%  | 67.8%    |
|                        | WORLD - MSCI (US\$)       | 1854      | 0.8%    | 5.9%      | 12.5%  | 41.3%    |
|                        | MSCI in NZD (NZ\$)        | 2654      | 3.7%    | 7.6%      | 11.1%  | 65.7%    |
| Exchange Rates         | NZD/USD                   | 0.70      | -2.8%   | -1.6%     | 1.2%   | -14.7%   |
|                        | NZD/AUD                   | 0.91      | -2.3%   | -2.2%     | 1.3%   | 16.0%    |
|                        | NZD/JPY                   | 78.28     | -3.2%   | 5.8%      | 1.0%   | 16.6%    |
|                        | NZD/GBP                   | 0.56      | -3.2%   | -4.1%     | 16.3%  | 9.1%     |
|                        | NZD/EUR                   | 0.65      | -3.6%   | 1.2%      | 7.3%   | 6.6%     |
|                        | NZ TWI                    | 75.87     | -2.9%   | -0.7%     | 4.0%   | 2.7%     |

Equity indices are the respective end-of-month closes. Interest rates and exchanges rates are at 5pm NZ.

For the latest performance information on ASB’s funds click [here for ASB Kiwisaver](#), here for [ASB Investment Funds](#) and more information on [ASB Securities is here](#).

**Income assets**

**Cash:**

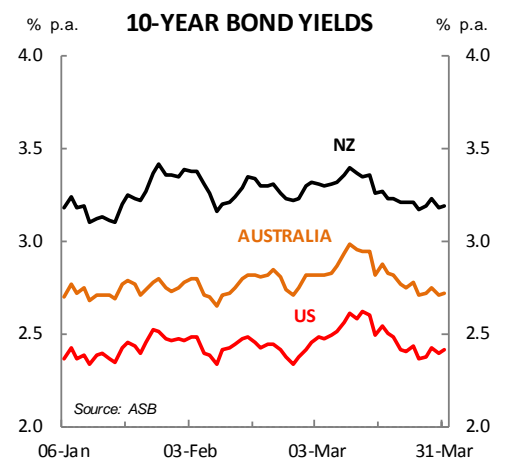
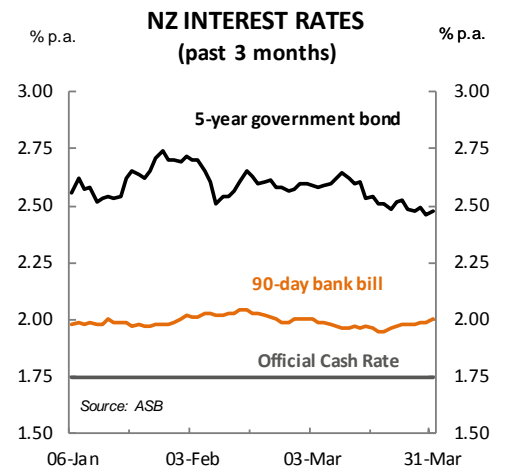
The RBNZ held the Official Cash Rate steady at a record low 1.75% at its March review. ASB Economics think the Official Cash Rate is unlikely to change over the year ahead. That suggests the returns on cash and other short-term fixed interest investments are likely to remain low over the year ahead too. In this vein, term deposit interest rates for terms up to a year were little changed in March. However, the longer terms have crept modestly higher lately, with carded rates now around 4.25%, some 0.6% higher than a year ago. The latest ASB term deposit rates can be found [here](#).

**NZ Fixed interest:**

NZ Government bond yields pressed lower during March, despite the RBNZ's decision to hold the Official Cash Rate steady, and the FOMC's decision to raise US interest rates during the month. The 2-year Government bond yield dipped from a high of 2.22% in early March to 2.14% by month end. The 5- and 10- year bond yields also dipped, to yield 2.47% and 3.19% respectively by month end.

**International Fixed Interest:**

Offshore, the Fed Funds rate hike from the FOMC in March was the key event, alongside the political developments discussed on the front page. US bond yields rose over the first part of the month, then fell into month end, with the 10-year bond yield closing March at 2.42%. Bonds were caught between two opposing forces: the expectation of higher interest rates over the year as the Fed delivers more rate hikes, and downward pressure on yields due to demand for the relative safety of bonds in bouts of uncertainty. Over the year ahead we expect that long-term interest rates will continue to lift both here and abroad, but remain low on a historical basis.



**Growth Assets**

**Australasian Equities:**

The NZX50 index of local shares fell by 0.8% in March, recording a weaker performance than most of the major offshore markets. Fletcher Building's reduced earnings forecast during the month saw the company's share price drop 12% in the wake of the announcement. The share price did recover somewhat over the rest of the month. Meanwhile the Australian sharemarket posted solid gains, with the All Ords index of shares up 2.5% over the month.

**International Equities:**

Global sharemarkets were mixed during March. The US political developments discussed on Page One weighed on investor sentiment over the month. But despite a weak month of March, the major US share indices posted strong gains over the full quarter, and are significantly higher than prior to the November US election.

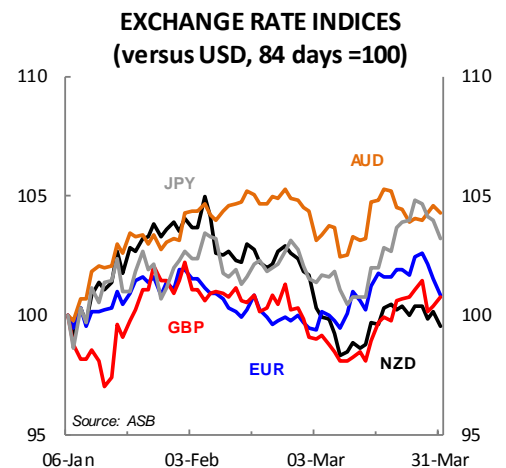
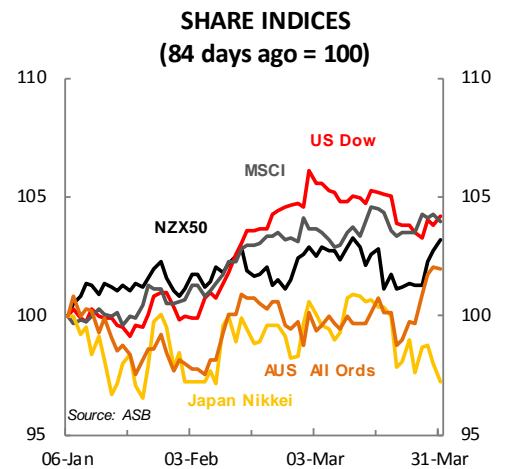
The UK's exit from the EU was another political focus during the month. Despite the uncertainty that "BREXIT" brings, the UK sharemarket posted modest gains for the month, and the FTSE 100 index of UK shares is 2.5% for the full quarter. In contrast, Japan's sharemarket was down 1.1% over both the month of March, and the full quarter.

ASB Securities has more information on sharemarkets and trading [here](#).

**Exchange Rates:**

The NZD eased over the month of March, and is down around 5% from its mid-February high on a trade-weighted basis. Over the past month the NZD has been particularly weak against a resurgent euro, with NZD/EUR easing 4.3%. The AUD has been strong over the past three months, and gained another 1.2% against the NZD over the month.

For more insights into currency issues, our latest ASB Kiwi Barometer can be downloaded [here](#).



| ASB Economics & Research     |                     |  | Phone          | Fax            |
|------------------------------|---------------------|--|----------------|----------------|
| Chief Economist              | Nick Tuffley        | <a href="mailto:nick.tuffley@asb.co.nz">nick.tuffley@asb.co.nz</a>               | (649) 301 5659 | (649) 302 0992 |
| Senior Economist             | Jane Turner         | <a href="mailto:jane.turner@asb.co.nz">jane.turner@asb.co.nz</a>                 | (649) 301 5853 |                |
| Senior Wealth Economist      | Chris Tennent-Brown | <a href="mailto:chris.tennent-brown@asb.co.nz">chris.tennent-brown@asb.co.nz</a> | (649) 301 5915 |                |
| Senior Rural Economist       | Nathan Penny        | <a href="mailto:nathan.penny@asb.co.nz">nathan.penny@asb.co.nz</a>               | (649) 448 8778 |                |
| Economist                    | Daniel Snowden      | <a href="mailto:daniel.snowden@asb.co.nz">daniel.snowden@asb.co.nz</a>           | (649) 301 5657 |                |
| Economist                    | Kim Mundy           | <a href="mailto:kim.mundy@asb.co.nz">kim.mundy@asb.co.nz</a>                     | (649) 301 5661 |                |
| Publication and Data Manager | Judith Pinto        | <a href="mailto:Judith.pinto@asb.co.nz">Judith.pinto@asb.co.nz</a>               | (649) 3015660  |                |

<https://reports.asb.co.nz/index.html>

[@ASBMarkets](#)



ASB Economics  
ASB North Wharf, 12 Jellicoe Street, Auckland

#### Important Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.