

Political developments continue to dominate headlines in April

- Once again, global political issues dominated the news in April, with President Trump holding centre stage.
- US shares lifted over the month, with share prices supported by positive company earnings results.
- Bond yields dipped both here and abroad, with geopolitical concerns driving sentiment.

Global political issues dominated the news in April, with US President Trump continuing to be the centre of attention.

Following March's healthcare failure, the April focus was on the US budget and tax overhaul. Trump's tax document was a disappointing one pager, and was largely a summary of what he said on the campaign trail. On the last day of the month Congress negotiators reached an agreement on a spending bill, and in doing so removed one key uncertainty for markets. The bill helps avoid a government shutdown, but won't provide the funding Trump wants for building his promised Mexico border wall. Nonetheless, US sharemarkets continue to shrug off Trump uncertainties and lifted over the month. Profit results from the majority of companies within the S&P 500 index have exceeded estimates and this is supporting share prices.

French political developments provided a positive boost to sentiment in April, as an election result that could lead to major policy changes in France appears less likely. The EUR/USD surged to near a six-month high (1.09), after French election exit polls showed Emmanuel Macron and Marine Le Pen made it through to the run-off this month. The presidential election will be a big event for markets on 7 May. A win by favoured centrist Macron would be seen by markets as a relief. In contrast, a win by the National Front Leader Le Pen could spark concerns in markets as investors consider the impact of a French departure from the EU. Polls are suggesting a 60% vs 40% win for Mr Macron.

In New Zealand, **the NZX50 index of shares rose by 2.5% over the month, and is up 3.9% over the year.** The Australian All Ords index lifted 0.7% over April, to be up 11.9% over the past 12 months.

NZD and AUD both eased over the month, particularly against EUR and GBP.

Turning to income assets, bond yields both here and abroad dipped lower, with the yield on 10-year government bonds down 0.14% here, and 0.13% in the US and Australia. Data released during April showed consumer price inflation lifted to an annual rate of 2.2% over Q1 2017. Despite the inflation pick-up, **ASB Economics** continue to 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 RBNZ meets in May, and its latest forecasts will be released.**

Date	Instrument	28-Apr-17	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	1.75	0.00	0.00	-0.50	-0.75
	NZ 90-day bank bill	1.98	-0.02	-0.01	-0.42	-0.71
Fixed Interest	NZ 5-year gov't stock	2.43	-0.04	-0.27	0.19	-0.91
	NZ 10-year gov't	3.05	-0.14	-0.31	0.22	-0.78
	AUS 10-year gov't	2.58	-0.13	-0.15	0.06	-1.12
	US 10-year gov't	2.29	-0.13	-0.18	0.46	0.35
Australasian Equities	NZ - NZX50 Capital (NZ\$)	3473.51	2.5%	3.2%	3.9%	66.2%
	AUS - All Ords (A\$)	5947.60	0.7%	4.8%	11.9%	33.1%
International Equities	JAP - Nikkei (¥)	19197	1.5%	0.8%	15.2%	101.6%
	UK - FT100 (£)	7204	-1.6%	1.5%	15.4%	25.6%
	US - S&P500 (US\$)	2384	0.9%	4.6%	15.4%	70.6%
	WORLD - MSCI (US\$)	1878	1.3%	4.8%	12.4%	45.2%
	MSCI in NZD (NZ\$)	2731	2.9%	11.0%	14.1%	73.5%
Exchange Rates	NZD/USD	0.6878	-1.5%	-5.6%	-1.4%	-16.3%
	NZD/AUD	0.9204	0.7%	-4.4%	1.1%	17.0%
	NZD/JPY	76.42	-2.4%	-7.6%	2.1%	16.0%
	NZD/GBP	0.5327	-4.8%	-8.5%	11.9%	5.5%
	NZD/EUR	0.6330	-3.2%	-7.1%	3.4%	2.0%
	NZ TWI	74.76	-1.5%	-6.1%	2.0%	1.1%

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 Scheme](#), click [here for ASB Investment Funds](#). More information on [ASB Securities is here](#).

Income assets

Cash:

The RBNZ has its next OCR review on 11 May. ASB Economics think the Official Cash Rate is unlikely to change over the year ahead. The RBNZ does release a full set of forecasts along with its OCR decision at this meeting. Earlier RBNZ forecasts suggested the RBNZ expected to keep the OCR around the current level (1.75%) until late 2019/early 2020. Higher than expected inflation data in Q1, and a healthy economic growth outlook may prompt the RBNZ to signal that it expects OCR increases to start slightly earlier.

Term deposit interest rates were little changed in April. Despite some debate over the exact timing, most forecasters concur that OCR hikes are still a year or more away. With this in mind, we expect the most of the shorter-term fixed interest returns will stay low over the year ahead. However, banks continue to target particular terms by offering “specials” on various term deposit rates. Some of the upward pressure on the longer-term rates (2-5 years) observed earlier in the year has dissipated of late, as long-term global interest rates ease lower again.

The latest **ASB term deposit rates** can be found [here](#).

NZ Fixed interest:

NZ Government bond yields pressed lower during April, in line with the global move. The 5- and 10- year bond yields dipped, to yield 2.43% (-4bps) and 3.05% (-14bps) respectively by month end.

International Fixed Interest:

Offshore, the key influences in April were the range of global political concerns (including Syria, North Korea, French and US politics) as well as weakness in many commodity prices. US bond yields declined, with the 10-year Government bond yield closing April at 2.29%. Despite the recent gyrations, over the year ahead we expect that long-term interest rates will resume lifting both here and abroad, but remain low on a historical basis.

Growth Assets

Australasian Equities:

The NZX50 index of local shares lifted 2.5% over the month of April, recording stronger returns than offshore markets. Meanwhile the Australian sharemarket posted modest gains, with the All Ords index of shares up 0.7% over April. The combination of healthy economic growth and low interest rates on both sides of the Tasman remains supportive for many companies.

International Equities:

Whilst many of the US political headlines have been unnerving, the **economic data have largely been encouraging, and company profit results have often exceeded expectations** of late. Accordingly, US share indices continued to press higher in April. Most other global sharemarkets posted gains over April, with the exception being the FT100 index of UK shares.

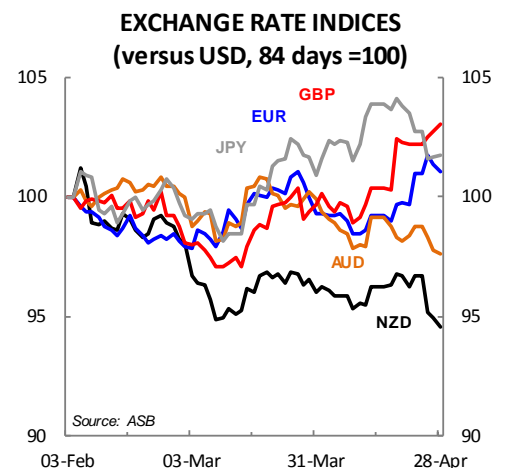
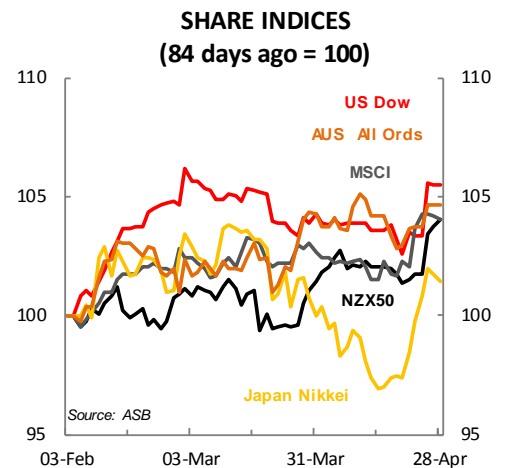
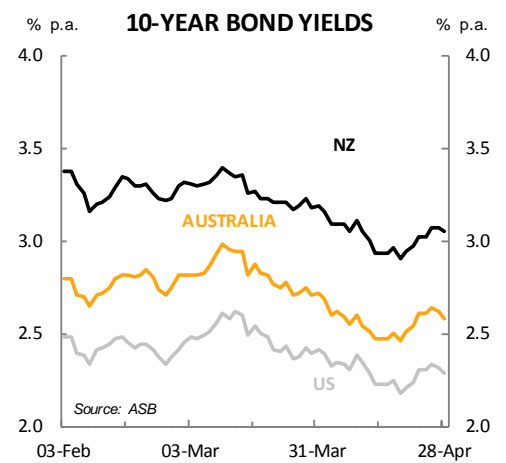
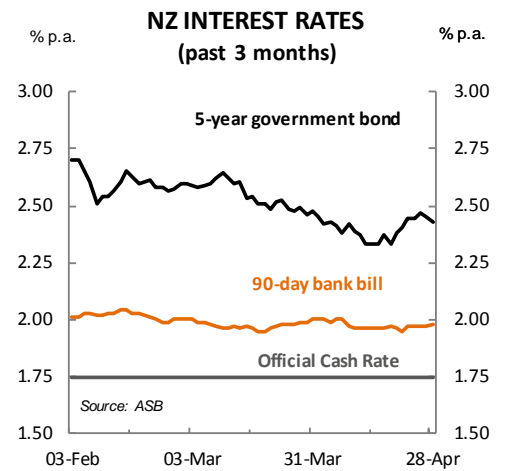
Global sharemarkets rose on 24 April in response to the first round of voting in the French presidential election. There was some disappointment at the lack of details of President Trump’s tax plans later in the month, but relief that negotiators reached an agreement on the spending bill that keeps the Government operating until September.

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

Exchange Rates:

The NZD eased over the month of March, and was down around 1.5% on a trade-weighted basis. Over the past month the NZD weakened significantly against the EUR and GBP. **GBP** surged on 18 April after a surprise decision by UK Prime Minister Theresa May to call an early general election on 8 June. Polls suggest the UK election will be favourable for Prime Minister May, and in turn provide a stronger mandate to negotiate throughout the Brexit process.

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



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