

Sharemarket highs, oil lows, and central bankers talking up rates.

- Sharemarkets posted modest gains in June, with US and NZ indices setting all-time highs during the month.
- The Fed hikes as expected, but long-term US rates remain low. The start of a FOMC bond sell-down is in sight, though.

Oil prices were a focus in June, as prices fell to a 12-month low during the month. West Texas Intermediate (a key US product) traded as low as \$42 per barrel on 21 June, over 20% lower than February's high. Prices lifted back to around \$46/bbl by month end, but that's still fairly low. Low energy prices are feeding into similarly low global inflation figures.

The uncertainty of whether the Senate would pass the latest bill on healthcare reforms was another focus in June. The ongoing US political dramas were a factor that saw US sharemarkets ease off record highs set mid-month, but indices still posted another month of gains. The S&P 500 index of US shares closed up 0.5% in the month, to be 2.6% higher over the second quarter. The MSCI index of global shares was up 0.2% in USD terms over June, but down in NZD terms, reflecting a 3.4% lift in NZD/USD during the month. NZ shares were up 2.2% in June, while the Australian market was flat.

A key focus in New Zealand during the month was sport, with success celebrated on the rugby field and water. Both successes tie in with local market themes. Firstly, businesses and consumers are confident in their outlooks, and this provides a positive backdrop for economic activity. Secondly, tourism is a key area of strength in the local economy. The Lions tour is providing a boost now, and the America's Cup win will help maintain momentum down the track. Evidence of the healthy state of tourism could be seen in Air New Zealand's latest market report, where its profit outlook was upgraded. Local consumer price inflation is back above 2%p.a. at present, but low energy prices and resumed NZD strength are factors that could see the local inflation dip again. The inflation outlook is keeping the RBNZ comfortable on the interest rate sidelines, despite NZ's positive economic performance. That's impacting the return on cash and other fixed interest investments.

A key influence on global interest rates is the US Federal Open Market Committee (FOMC). The FOMC lifted its target Fed funds rate on 15 June, as widely expected. The question is now when will the FOMC start to sell down its huge portfolio of bonds that were purchased in the years following the Global Financial Crisis? At its June meeting the FOMC indicated plans to eventually cut its bond holdings by \$10 billion per month, gradually rising to \$50 billion per month. We expect this process will start later this year. FOMC chair Janet Yellen commented that the reduction of the FOMC's \$4.5 trillion balance sheet would be 'like watching paint dry' and would not have a material impact on US government bond yields. Watch this space - global inflation and central banks' handling of their bond holdings are important for portfolios with exposure to bonds over the years ahead. The yield on NZ 10-year government bonds rose 0.19% over the month, while the US equivalent rose 0.05%.

Date	Instrument	30-Jun-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	0.01	-0.02	-0.43	-0.70
Fixed Interest	NZ 5-year gov't stock	2.66	0.20	0.19	0.64	-0.30
	NZ 10-year gov't	2.97	0.19	-0.22	0.63	-0.51
	AUS 10-year gov't	2.60	0.21	-0.11	0.59	-0.48
	US 10-year gov't	2.28	0.05	-0.14	0.77	0.66
Australasian Equities	NZ - NZX50 Capital (NZ\$)	3563.25	2.2%	5.1%	6.0%	79.5%
	AUS - All Ords (A\$)	5764.00	0.0%	-2.4%	8.5%	39.4%
International Equities	JAP - Nikkei (¥)	20033	1.9%	5.9%	28.6%	122.4%
	UK - FT100 (£)	7313	-2.8%	-0.1%	12.4%	31.3%
	US - S&P500 (US\$)	2423	0.5%	2.6%	15.5%	77.9%
	WORLD - MSCI (US\$)	1916	0.2%	3.4%	15.9%	55.1%
	MSCI in NZD (NZ\$)	2616	-3.1%	-1.5%	12.0%	68.2%
Exchange Rates	NZD/USD	0.7327	3.4%	4.9%	3.5%	-7.8%
	NZD/AUD	0.9517	0.1%	4.2%	-0.1%	21.7%
	NZD/JPY	81.98	4.3%	4.7%	12.7%	30.2%
	NZD/GBP	0.5625	1.7%	0.6%	6.4%	10.6%
	NZD/EUR	0.6404	1.0%	-2.1%	0.4%	1.4%
	NZ TWI	78.29	2.2%	3.2%	3.3%	7.8%

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 held its latest review on 22 June, and kept the Official Cash Rate at 1.75%, as unanimously expected. ASB Economics continues to think the Official Cash Rate is unlikely to change over the year ahead. RBNZ forecasts released in May suggested the RBNZ expects to keep the OCR around the current level (1.75%) until late 2019. We think that the healthy economic growth outlook will eventually prompt the RBNZ to increase the OCR around a year earlier, in late 2018.

Term deposit interest rates were largely unchanged in June. If OCR hikes are still a year or more away, shorter-term fixed interest returns will likely stay near current lows over the next 12 months. However, banks are continuing to offer “specials” on various term deposit rates. The upward pressure we saw on longer-term rates (2-5 years) earlier in 2017 has eased somewhat, and longer-term rates were steady in June.

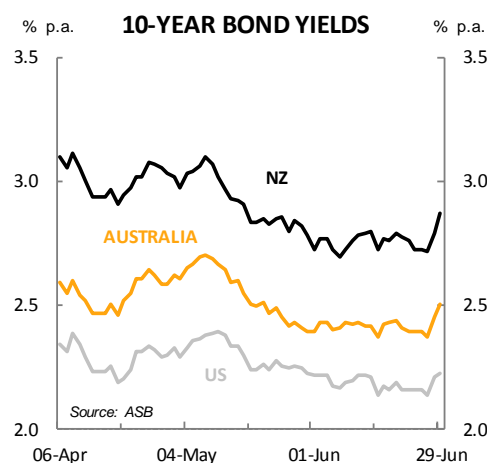
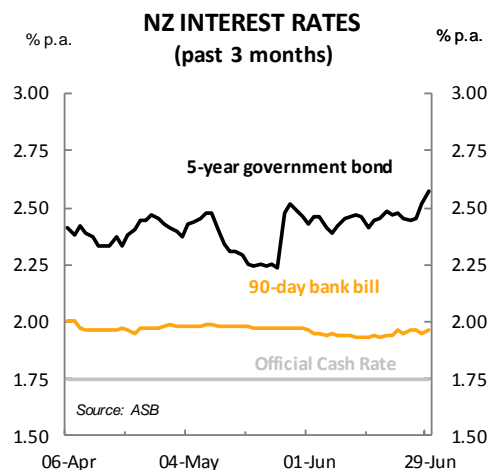
The latest ASB term deposit rates can be found [here](#).

NZ Fixed interest:

The 10-year NZ Government bond yield moved higher in June, in line with Australian moves, but outpacing the lift seen offshore. The NZ 10-year bond yield rose to 2.97% by month end, with an uptick at month-end matching a global move higher in yields (shown in the second chart on right).

International Fixed Interest:

Offshore, the US FOMC hiked its target Fed funds rate as expected, and continues to expect to deliver more interest rate increases over the year ahead. However, long-term rates remain low, with the 10-year Government bond yield lifting a modest 0.05% over the month. Towards the end of the month we did see a lift in long-term yields in the US, the UK and Europe. The lift came in response to speeches from central bankers from the Fed, the European Central Bank and the Bank of England, who all spoke about the need for higher interest rates in the future.



Growth Assets

Australasian Equities:

The NZX50 index of local shares lifted 2.2% over June, outpacing the major sharemarkets we monitor over the month. A2 Milk, Air NZ, and Restaurant Brands posted double digit gains in June. In contrast, the Australian sharemarket was flat in June, leaving the All Ords index of shares down 2.4% over the quarter, with lower commodity prices a negative influence.

International Equities:

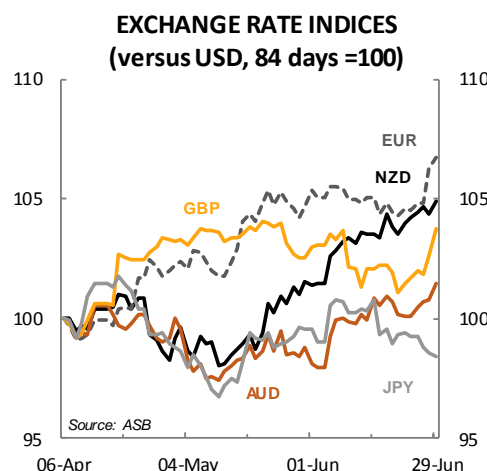
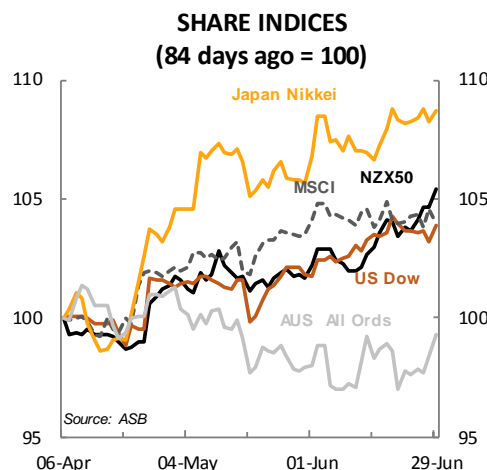
International sharemarkets were mixed in June, with returns ranging from a 1.9% gain for the Nikkei index of Japanese shares, to a 2.8% decline for the UK's FTSE Index. The US S&P 500 index of shares was up 0.5% in June.

Although returns were mixed in June, it has been a very strong 12 months for sharemarkets. Share prices for many companies have been supported by solid earnings growth. The combination of historically low interest rates, low inflation and reasonable economic growth in many of the major economies is a positive operating environment for companies.

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

Exchange Rates: A key development in currency markets over recent months is the weakening of the US dollar. The USD has eased against other major currencies and the NZD in tandem with a decline in long-term interest rates over recent months. The move has completely reversed the so-called “Trump Trade”, where US rates rose, and the USD strengthened in late 2016, after Trump’s election victory. The NZD itself has also been guided higher recently by a healthy economic outlook, and favourable developments for NZ’s key export sectors. Meanwhile, the EUR strengthened in late June, supported by higher European interest rates.

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



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