

Political ebbs and flows

- The French election supported market sentiment in May, as Macron took out the victory as expected.
- US political scandals rocked markets during the month, but the impact on financial markets wasn't long lasting.
- The RBNZ left the OCR on hold, continuing to signal that the OCR would remain on hold until 2019.

Financial markets were quick to move on from the French election, following Macron's victory. The election had the potential to be the political event of 2017, with a victory to Le Pen suggesting another bout of Euro-skepticism would hit Europe. Instead, election results were in line with polls, creating little in the way of surprises to upset markets. US political developments (scandals) also continued to be front and centre in May. Trump's firing of FBI Director, James Comey, amid allegations that Trump informed Comey not to investigate Trump-Russia ties, took much of the spotlight off any potential fiscal policies in May. While causing a brief bout of global risk aversion, **the financial market impact of the US developments were somewhat muted.** As a result, the US sharemarket and the US economy continue to perform reasonably well and the US Federal Reserve looks set to raise interest rates on the 15th of June NZ time.

In New Zealand, **the NZX50 index of shares rose 0.3% over the month, to be 1.3% higher over the year.** The Australian All Ords index fell 3.1% over May, but remains up 5.8% over the past 12 months. The Reserve Bank of New Zealand met during May, and surprised the market with its view that Official Cash Rate (OCR) increases were still not likely until 2019. This contrasted to the market view that recent inflation and economic data would encourage the RBNZ to signal that it would likely be lifting the OCR slightly earlier.

The NZD lifted over the month. The ongoing improvement in the dairy outlook was a factor, as was general USD weakness as concerns about the Trump administration's ability to manage its agenda mounted. That dairy sector improvement was evident at Fonterra's May meeting, at which Fonterra raised this season's milk price forecast by 15c to \$6.15, and forecast an even healthier \$6.50 milk price for the season ahead.

Turning to income assets, bond yields both here and abroad largely fell over the month, with the yield on 10-year government bonds down 0.27% here, and falling 0.06% and 0.19% in the US and Australia, respectively. The RBNZ held the OCR steady at 1.75% at its May meeting. **ASB Economics continue to think the Official Cash Rate is unlikely to change until later in 2018,** earlier than the RBNZ's 2019 forecast. Regardless of the specific timing, with the OCR on hold at a record low for the year ahead, the **returns on cash and other short-term fixed interest investments** are likely to remain low over 2017.

Date	Instrument	31-May-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	1.97	-0.01	-0.03	-0.45	-0.56
Fixed Interest	NZ 5-year gov't stock	2.46	0.03	-0.11	0.29	-0.34
	NZ 10-year gov't	2.78	-0.27	-0.45	0.18	-0.67
	AUS 10-year gov't	2.40	-0.19	-0.35	0.09	-0.53
	US 10-year gov't	2.22	-0.06	-0.15	0.36	0.61
Australasian Equities	NZ - NZX50 Capital (NZ\$)	3485.66	0.3%	2.0%	1.3%	70.7%
	AUS - All Ords (A\$)	5761.30	-3.1%	0.0%	5.8%	39.4%
International Equities	JAP - Nikkei (¥)	19651	2.4%	2.8%	14.0%	130.0%
	UK - FT100 (£)	7520	4.4%	3.5%	20.7%	41.3%
	US - S&P500 (US\$)	2412	1.2%	2.0%	15.0%	84.1%
	WORLD - MSCI (US\$)	1912	1.8%	4.0%	14.2%	62.3%
	MSCI in NZD (NZ\$)	2699	-1.2%	5.4%	8.4%	72.7%
Exchange Rates	NZD/USD	0.7084	3.0%	-1.4%	5.3%	-6.0%
	NZD/AUD	0.9504	3.3%	1.7%	2.4%	22.5%
	NZD/JPY	78.62	2.9%	-2.8%	5.2%	32.4%
	NZD/GBP	0.5529	3.8%	-4.3%	20.6%	13.5%
	NZD/EUR	0.6339	0.1%	-6.6%	4.9%	4.2%
	NZ TWI	76.58	2.4%	-2.0%	5.5%	9.2%

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](#).

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Please refer to the important disclosures at the end of this document

Income assets

Cash:

The RBNZ held its latest review on 11 May, and kept the Official Cash Rate at 1.75%, as expected. ASB Economics thinks the Official Cash Rate is unlikely to change over the year ahead. The RBNZ released a full set of forecasts along with its OCR decision at this meeting. We were surprised that these forecasts continue to suggest 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 earlier.

Term deposit interest rates were largely unchanged in May. As most forecasters believe OCR hikes are still a year or more away, we expect shorter-term fixed interest returns will 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 over the last few months, in line with long-term global interest rates.

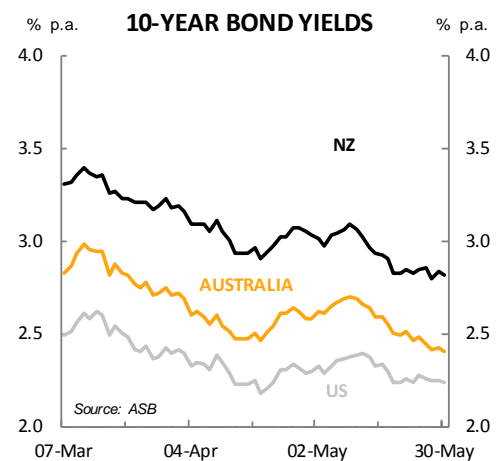
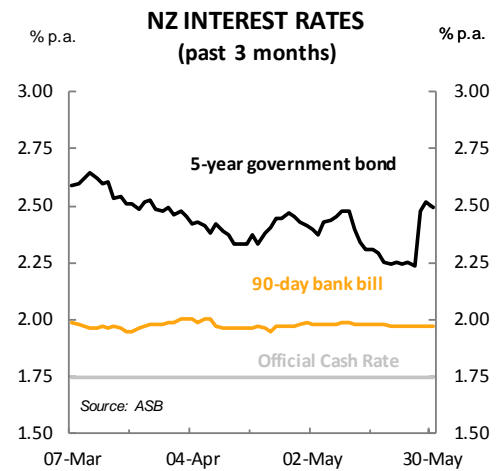
The latest ASB term deposit rates can be found [here](#).

NZ Fixed interest:

The 10-year NZ Government bond yield moved lower in May, in line with moves in the US. The 10-year bond yield dipped to 2.78% (-27bps) by month end.

International Fixed Interest:

Offshore, the US political tensions, including the ongoing investigation into Trump’s ties with Russia were a key influence on bond markets. However, weak US inflation data also weighed on US bond yields. The 10-year Government bond yield dipped 0.06% over the month. However, we expect that the general trend in 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 lifted a muted 0.3% over May, a softer return than many offshore equity markets. However, the NZX50 outperformed the Australian sharemarket, with the All Ords index of shares down 3.1% in May. A bout of global risk aversion, stemming from offshore political risk, weighed on returns in Australasia over the month.

International Equities:

Sentiment largely held up over the month as the French election played out as expected. US political developments, and the corresponding bout of global risk aversion, was reasonably short-lived. Accordingly, most global sharemarkets posted gains over April, apart from the MSCI.

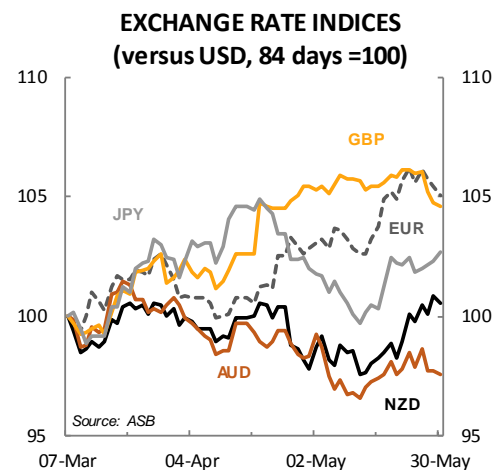
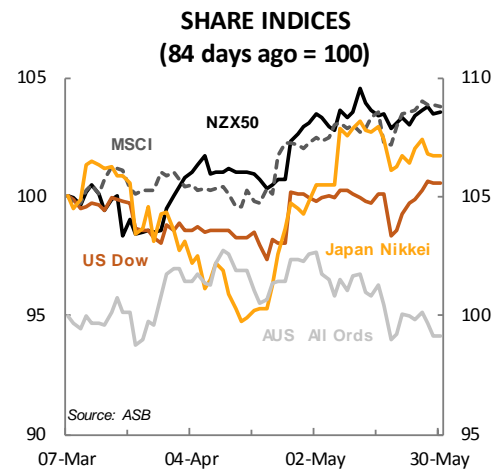
Trump’s firing of FBI Director, James Comey, amid allegations that Trump informed Comey not to investigate Trump-Russia ties, took much of the spotlight off any potential fiscal policies in May.

The UK FT100 outperformed most other global equity markets in May, rising 4.4% over the month. UK data have held up better than expected following Brexit and the lower Pound has supported UK exports. In the last 12 months, the UK FT100 has risen 20.7%.

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

Exchange Rates:

The USD gave back all of its post-Trump election gains in May. The US President was rocked by ongoing scandals such as the investigation between the Trump Administration and Russia and Trump’s dismissal of FBI Director James Comey. As a result, the NZD rose 3.0% against the USD over the month. The NZD also rose against all other major currencies we monitor, to be 2.4% higher on a trade-weighted basis. Solid NZ economic data over the latter half of the month supported the NZD. For more insights into currency issues, our latest ASB Kiwi Barometer can be downloaded [here](#).



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