

Markets Monthly

15 September 2020

Another month, another record for sharemarkets

Sharemarkets posted strong gains over August. NZ and US sharemarkets set fresh highs over the month. The MSCI index of world shares rose over 6%.

The signals ranged from encouraging on the economic data front, to worrying, in terms of COVID-19 cases, politics and US-China tensions. Sharemarkets have since retreated from their respective highs in early September.

Local government bond yields eased even lower over August, as the RBNZ stepped up its bond purchases. In contrast, Australian and US yields lifted last month, but remain very low. Central banks are determined to keep interest rates low. Term deposit rates have also eased even lower over August.

USD and JPY softened over the month, and NZD rose against these currencies, but was down on AUD and GBP.

Date		31-Aug-20	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-0.75	-2.75
	NZ 90-day bank bill	0.29	-0.01	0.03	-0.90	-2.63
Fixed	NZ 5-year gov't stock	0.15	-0.20	-0.22	-0.69	-2.52
Interest	NZ 10-year gov't	0.63	-0.12	-0.19	-0.44	-2.59
	AUS 10-year gov't	0.99	0.15	0.09	0.10	-1.67
	US 10-year gov't	0.73	0.20	0.06	-0.78	-1.44
Australasian	NZ - NZX50 Capital (NZ\$)	5047	1.6%	9.2%	8.1%	75.7%
	- NZX50 Gross (NZ\$)	11938	1.8%	9.7%	11.0%	111.0%
Equities	AUS - All Ords (A\$)	6246	3.1%	6.4%	-6.8%	19.6%
International	JAP - Nikkei (¥)	23140	6.6%	5.8%	11.8%	22.5%
	UK - FT100 (£)	5964	1.1%	-1.9%	-17.3%	-4.6%
	US - S&P500 (US\$)	3500	7.0%	15.0%	19.6%	77.5%
	WORLD - MSCI (US\$)	2456	6.5%	14.3%	14.8%	49.2%
	- MSCI return in NZD		6.2%	5.6%	7.6%	42.6%
Exchange	NZD/USD	0.6722	0.3%	8.3%	6.7%	4.6%
Rates	NZD/AUD	0.9147	-1.5%	-2.0%	-2.4%	1.8%
	NZD/JPY	71.02	1.6%	6.8%	6.0%	-8.7%
	NZD/GBP	0.5040	-1.3%	0.3%	-2.5%	21.1%
	NZD/EUR	0.5647	0.2%	1.0%	-1.0%	-1.0%
	NZ TWI	72.07	-0.7%	3.3%	2.3%	3.7%

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

August highlights

Global sharemarkets were strong over August, with the MSCI index of world shares up 6.5%. The MSCI index subsequently set a record high in early September but has retreated around 5% from that peak. The signals have ranged from encouraging on the economic data front, to worrying, in terms of COVID-19 cases, politics and US-China tensions.

In terms of central bank action, the RBNZ was at the dovish end of the scale, and on 12th August announced that it will boost the ceiling on its asset purchases, and will start preparing to be able to enact a negative OCR and direct lending to banks (Funding for Lending Programme). We now expect the RBNZ will implement the Funding for Lending Programme and a negative OCR early next year. Local term deposit rates dipped in August and early September, with all terms now under 1.3%.

The Reserve Bank of Australia (RBA) didn't change the cash rate (Australia's equivalent of the RBNZ's OCR) in August (or September), but the door is still open to the possibility of a further reduction. The RBA has a 0.25% target for both the Australian cash rate and 3-year government bonds. At its August meeting, the RBA confirmed it will resume bond purchases to ensure that the yield on 3-year bonds remains consistent with the 0.25% target.

In late August, Fed Chair Powell announced the FOMC was adopting an average inflation targeting strategy. The implication of the new strategy, for the economy and investors, is the Fed will now have the flexibility to keep US interest rates lower for longer. The Fed will now tolerate a period of inflation above 2% to make up for past undershoots.

The main theme in currency markets recently has been the weak USD. The greenback decreased against all the major currencies, except JPY, during August, and the USD index was down 1.3%. That helped NZD/USD gain 0.3% over the month, but the local currency was mixed on other cross rates.

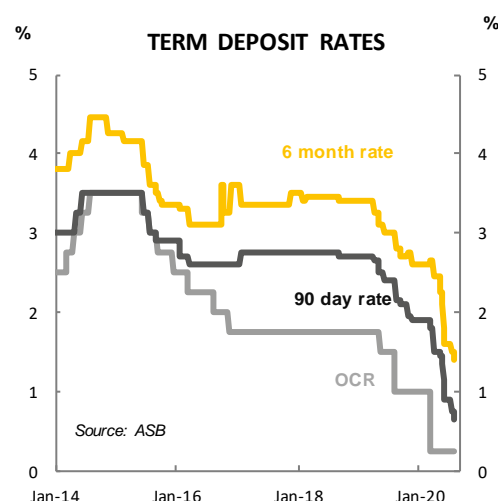
Income Assets

Asset	Instrument	31-Aug-20 Yield (%)	Month	Quarter	Year	5-Year
		Yield Change				
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-0.75	-2.75
	NZ 90-day bank bill	0.29	-0.01	0.03	-0.90	-2.63
	US 90-day bank bill	0.24	-0.01	-0.11	-1.89	-0.09
Fixed	NZ 5-year gov't stock	0.15	-0.20	-0.22	-0.69	-2.52
Interest	NZ 10-year gov't	0.63	-0.12	-0.19	-0.44	-2.59
	NZ 10-year swap	0.63	0.00	-0.11	-0.64	-2.95
	AUS 10-year gov't	0.99	0.15	0.09	0.10	-1.67
	US 10-year gov't	0.73	0.20	0.06	-0.78	-1.44

Cash

At its 12 August meeting, the RBNZ left the OCR at 0.25%, but [announced](#) that it will boost the ceiling on its asset purchases, and will start preparing to be able to enact a negative OCR and direct lending to banks (Funding for Lending Programme). We now expect the RBNZ will implement the Funding for Lending Programme and a negative OCR early next year. More information about our outlook for the RBNZ and negative interest rates can be [read here](#).

NZ yields declined over August and are significantly down on a year ago. We expect returns from NZ cash investments to remain extremely low over the year ahead.



Term deposit interest rates continue to ease lower and were trimmed during August, and again in September. For amounts over \$10k, term deposit rates for 1-5 years are now between 1.15% and 1.2% (a decline of around 1.3% and 1.4% on where they were prior to the RBNZ’s March cut). Rates for shorter, 3-month terms are now around 0.4%, and 4- to 12-month rates are between 0.4% and 1.2% (down around 1.4%-1.5% on the levels of early March). **We continue to think the risk for savers is that term deposit rates remain low for an extended period (years) and could press even lower than today’s levels over the year ahead.** The latest ASB term deposit rates [can be found here](#).

NZ Fixed Interest

The RBNZ’s 0.75% OCR cut and its subsequent “Large Scale Asset Purchase Programme” continue to drive key domestic fixed interest rates lower. In August the RBNZ raised the cap on the asset purchase programme again, to \$100bn over the period to June 2022. The Crown Indemnity on conventional NZ government bond purchases was lifted to 60%. The RBNZ also signaled a scaled up weekly asset purchase programme. In sum, this is keeping NZ 10-year bond yields around 3-month lows (circa 0.65%).

Bank and corporate bond yields also remain very low in New Zealand at present, with many shorter-termed investment grade yields now well below 1%.

International Fixed Interest

While NZ long term yields declined in August, the opposite was happening in Australia and the US. Australian government bond yields climbed quite sharply over the month of August. The last week of the month saw a notable spike, taking the 10-year rate over 1% for the first time in a few months. US 10-year yields followed a similar pattern, albeit tracking around 0.25% lower than in Australia.

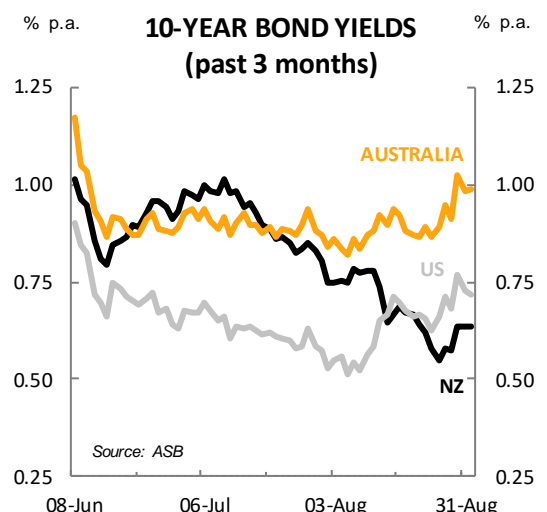
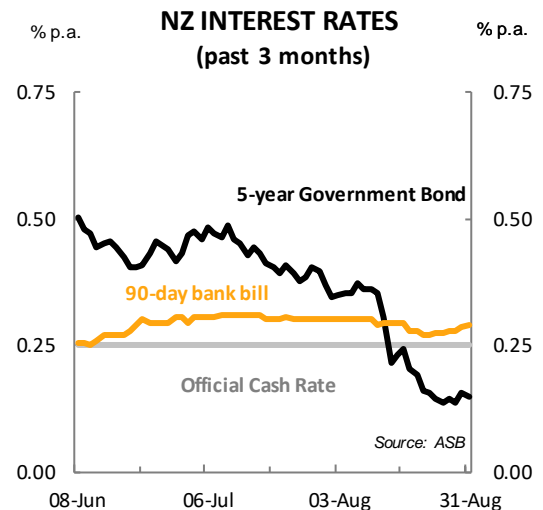
The US 10-year yields set an all-time low on 4th August (0.51%), but ended August around 20 basis points or 0.2% higher.

The above developments have seen NZ long-term government bond yields dip below US yields late in the month.

Government bond yields remain negative out to the 10-year tenor in France, Germany and Switzerland. The Netherlands and Sweden also have negative 10-year yields. 10-year bond yields trade near zero in Japan. UK 10-year Government Bond yields remain positive – but only just, trading around 0.19% at the time of writing.

Outlook:

We continue to expect long-term investment grade yields to remain low, given very low inflation, the weak global economic outlook and the likelihood that the world’s major central banks will maintain ultra-loose monetary policy settings for the foreseeable future.



Growth Assets

Asset	Index	31-Aug-20 Level	Month %	Quarter %	Year %	5-Year %p.a.
			Change			
Equities	NZ - NZX50 Capital (NZ\$)	5047	1.6%	9.2%	8.1%	11.9%
	- NZX50 Gross (NZ\$)	11938	1.8%	9.7%	11.0%	16.1%
	AUS - All Ords (A\$)	6246	3.1%	6.4%	-6.8%	3.6%
	All Ords in NZD	6828	4.7%	8.5%	-4.4%	3.3%
	JAP - Nikkei (¥)	23140	6.6%	5.8%	11.8%	4.1%
	UK - FT100 (£)	5964	1.1%	-1.9%	-17.3%	-0.9%
	US - S&P500 (US\$)	3500	7.0%	15.0%	19.6%	12.2%
	WORLD - MSCI (US\$)	2456	6.5%	14.3%	14.8%	8.3%

Australasian Equities

Australasian markets were positive in August, with the NZX50 Gross index up 1.6%, and Australia's All Ords index up 3.1% over the month. That was the best August return since 2009 for the Australian benchmark.

The NZ sharemarket set fresh record highs during August but has eased back modestly in September. At the time of writing, the NZ sharemarket is down 2.5% from its peak in August, while the Australian market is still around 16% off its record highs, set back in February.

International Equities

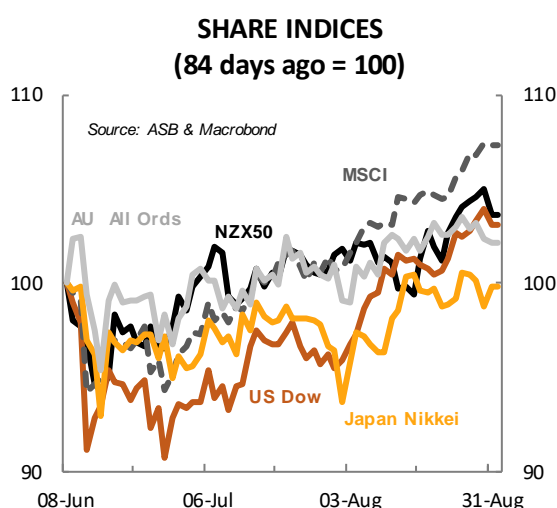
Global sharemarkets were strong over August, with the MSCI index of world shares up 6.5%. The MSCI index set a record high in early September, but at the time of writing has subsequently retreated around 5% from that peak.

Investors remain encouraged by the huge fiscal and monetary policy support around the world, and the impact that is expected to have on economic growth and businesses. Recent signals have ranged from encouraging on the economic data front, to worrying, in terms of COVID-19 cases, politics and US-China tensions. Sharemarkets have retreated from their respective highs in early September, but overall sentiment remains positive. In early September, vaccine news has been another theme.

Over August, the US Dow rose 7.6%, the S&P 500 rose 7.0%, and the NASDAQ rose 9.6%. Once again, technology stocks outperformed, with some of the "stay-at-home" stocks helping power the overall sharemarket higher. Although the tech-heavy NASDAQ outperformed, the Dow Jones and S&P 500 indices recorded their strongest gains for August since 1984 & 1986 respectively.

In Asia, Japan's Nikkei index gained 6.6%. In Europe, the UK's FTSE rose 1.1%, while the German Dax index surged 5.5%.

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



Exchange Rates

The NZD was mixed over August, gaining 0.3% against the USD, 0.2% against the Euro, and 1.6% against the JPY.

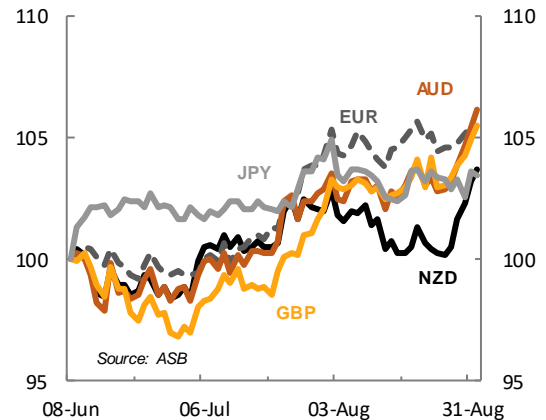
AUD was strong over the month, and that saw NZD/AUD decline 1.5%, and dip below 0.9200.

GBP also lifted over the month, despite the COVID and Brexit challenges faced by the UK. The stronger pound saw NZD/GBP ease 1.3% back towards 0.5000.

In sum, the NZD was down 0.7% on a trade weighted basis over the month.

More information about currencies is available in ASB’s weekly economic report which can be [downloaded here](#).

**EXCHANGE RATE INDICES
(versus USD, 84 days =100)**



ASB Economics & Research

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

Nick Tuffley
Mark Smith
Jane Turner
Mike Jones
Chris Tennent-Brown
Nat Keall
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
nathaniel.keall@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 5720
(649) 301 5660

www.asb.co.nz/economics

[@ASBMarkets](https://twitter.com/ASBMarkets)

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.