

# Markets Monthly

06 August 2020

## Mixed signals

Sharemarkets were mixed over July. NZ and US sharemarkets gained and traded back towards their respective record peaks over the month. Other sharemarkets have been mixed and remain further off the highs of early 2020.

The signals have ranged from encouraging on the economic data front through to worrying in terms of COVID-19 cases, politics and US-China tensions.

Government bond yields here and abroad eased even lower over the month, as the world's major central banks and the RBNZ maintained ultra-loose policy settings.

Term deposit rates have also eased lower over the month.

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

Date		31-Jul-20	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-1.25	-2.75
	NZ 90-day bank bill	0.30	-0.01	0.03	-1.20	-2.80
Fixed Interest	NZ 5-year gov't stock	0.35	-0.09	0.03	-0.79	-2.37
	NZ 10-year gov't	0.75	-0.19	0.02	-0.70	-2.60
	AUS 10-year gov't	0.84	-0.05	-0.08	-0.36	-1.93
	US 10-year gov't	0.53	-0.11	-0.09	-1.53	-1.73
Australasian Equities	NZ - NZX50 Capital (NZ\$)	4966	2.3%	11.0%	4.9%	64.8%
	- NZX50 Gross (NZ\$)	11728	2.4%	11.4%	7.7%	98.1%
Equities	AUS - All Ords (A\$)	6058	0.9%	8.2%	-12.2%	6.6%
International Equities	JAP - Nikkei (¥)	21710	-2.6%	7.5%	0.9%	5.5%
	UK - FT100 (£)	5898	-4.4%	-0.1%	-22.3%	-11.9%
	US - S&P500 (US\$)	3271	5.5%	12.3%	9.8%	55.5%
	WORLD - MSCI (US\$)	2305	4.7%	12.3%	5.4%	30.5%
	- MSCI return in NZD		0.3%	2.9%	3.7%	28.3%
Exchange Rates	NZD/USD	0.6703	4.4%	9.1%	1.6%	1.8%
	NZD/AUD	0.9287	-0.4%	-0.8%	-2.9%	3.0%
	NZD/JPY	69.90	1.1%	6.8%	-2.3%	-14.4%
	NZD/GBP	0.5105	-2.2%	3.6%	-5.9%	21.0%
	NZD/EUR	0.5635	-1.4%	-0.4%	-4.7%	-6.3%
	NZ TWI	72.57	1.9%	5.0%	0.0%	3.2%

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](#).

## July highlights

Sharemarket performance and news flow was mixed over the month. Of concern, COVID-19 infections in the US surged during most of July. Closer to home, there has been a second wave of cases in Victoria, which has sent Melbourne back into lockdown. Some of the global concerns combined with a weaker USD and boosted gold prices to an all-time high, passing the previous peak set in the Global Financial Crisis.

But on the other hand, economic data were at times very encouraging. In particular, key US economic data were stronger than expected in July. Manufacturing and services indicators for June (ISM surveys), Non-farm Payrolls (employment) and US retail sales were all stronger than expected. In saying that, US employment remains far weaker than at the start of the year, and Congress could not agree on a support package before the expiry of extra unemployment benefits on 31 July. Without an extension, many households feared an imminent hit to income in early August. The US economy has shrunk significantly, with data released during the month showing Q2 Gross Domestic Product, or GDP contracting by 33% in seasonally-adjusted, annualised terms. That's a 10% nominal contraction compared to the first quarter. The activity drop was not quite as bad as initially feared, but still the biggest quarterly contraction in US GDP since at least 1945. Beyond the alarming increase in COVID-19 cases in the US, another negative development was the deteriorating political relationship with China, which included tit-for-tat closures of consulates in July. This is all casting a shadow over the elections later in the year.

The US Federal Reserve left its monetary policy settings unchanged during July and remained very cautious with regard to both the COVID-19 developments and the economic outlook. Chair Powell unsurprisingly noted that *"we have seen some signs in recent weeks that the increase in virus cases, and the renewed measures to control it, are starting to weigh on economic activity"*. Powell also indicated the economy requires more support from the government, commenting that *"fiscal policy is essential"*. We concur, low interest rates can only do so much in the US and elsewhere, including New Zealand.

Across the Atlantic, the European Central Bank (ECB) made no changes at its meeting in July, but President Lagarde said the ECB expects to spend the full amount of its pandemic bond-buying program. European Union leaders also agreed on a €750bn recovery package during July. The package consists of €390bn of grants (reduced from the original €500bn), and €360bn of loans. It is another step towards fiscal unification within the monetary union.

In China, stronger than expected June and July manufacturing PMI data supported the view that the economic recovery in China is continuing, and the Chinese equity market gained nearly 12% over the month.

The Reserve Bank of Australia (RBA) didn't change the cash rate (Australia's equivalent of the RBNZ's OCR) in July or August. But the door is still open to the possibility of a further reduction. Although the RBNZ and the RBA both share target rate settings of 0.25%, there are some important differences in the way each central bank is conducting its operations at present. The RBA has a 0.25% target for both the Australian cash rate and 3-year government bonds. In contrast, the RBNZ has committed to the size of its bond purchases but does not have a specific interest rate target for government bond yields. Over July the RBA did not need to buy any bonds to achieve its target. However, 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. The RBA has also implemented a term funding facility, and a drawdown on this facility kept banks from the funding markets over July. A contrast between New Zealand and Australia is that Australia's term deposits are lower than New Zealand's equivalent rates at present. We discuss the risks to NZ term deposit rates in the "Cash" section below.

The RBNZ next meets on 12<sup>th</sup> August. What happens next is an important question that investors are looking forward to hearing about at this meeting. The RBNZ still has plenty of options, if needed, to support economic growth. Meanwhile retail interest rates continue to decline, with term deposit rates and mortgage rates both dipping over the month. New Zealand also had its own "better-than-expected" labour market data, with the unemployment rate over the second quarter actually falling to 4%, in contrast to expectations (including ours) of a sharp increase in unemployment. However, the real question is still how will the job market settle once the various wage subsidy schemes end and the economy adjusts to its post-COVID 'normal'? There are still around 450k people on the wage subsidy extension that is currently due to expire at the end of the month, roughly 17% of the labour force. This suggests further difficulties ahead. We expect the unemployment rate to rise from here but concede that the peak may be lower than first thought.

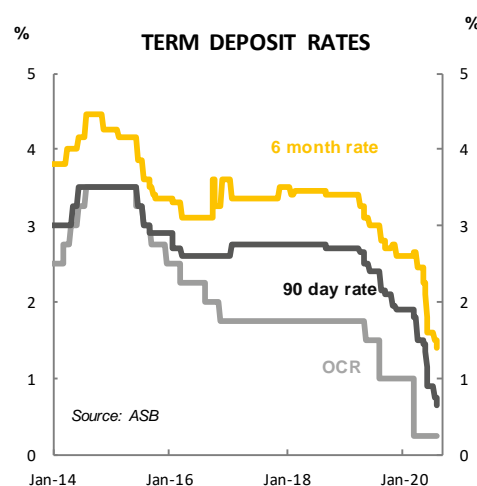
On the fiscal support front the September General Election clouds the picture a bit over the coming weeks as Parliament rises, and the campaigning starts in earnest. There is still plenty of work to do to support the economy.

## Income Assets

Asset	Instrument	31-Jul-20 Yield (%)	Month	Quarter	Year	5-Year
		Yield Change				
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-1.25	-2.75
	NZ 90-day bank bill	0.30	-0.01	0.03	-1.20	-2.80
	US 90-day bank bill	0.25	-0.05	-0.44	-2.00	-0.05
Fixed	NZ 5-year gov't stock	0.35	-0.09	0.03	-0.79	-2.37
Interest	NZ 10-year gov't	0.75	-0.19	0.02	-0.70	-2.60
	NZ 10-year swap	0.63	-0.11	-0.16	-1.02	-3.04
	AUS 10-year gov't	0.84	-0.05	-0.08	-0.36	-1.93
	US 10-year gov't	0.53	-0.11	-0.09	-1.53	-1.73

### Cash

The next RBNZ announcement takes place on 12<sup>th</sup> August. We don't expect any changes to policy settings, but we do expect to hear more about what might come next in terms of RBNZ actions for later in the year and into 2021. Back in March, when the RBNZ cut the Official Cash Rate (OCR) to 0.25% it also committed to keep the OCR at 0.25% over the year ahead. The RBNZ also announced an asset purchase programme of NZ \$30bn in NZ Government bonds, which in April was expanded to include \$3 billion of Local Government Funding Agency (LGFA) debt. In May the overall size of the programme was expanded to \$60bn. Settings remained steady at the RBNZ's subsequent meeting in late June. The RBNZ has not ruled out moving the OCR lower, and the balance of risks will help keep NZ rates low. NZ yields declined over July and are significantly down on a year ago. We expect returns from NZ cash investments to remain extremely low over the year ahead.

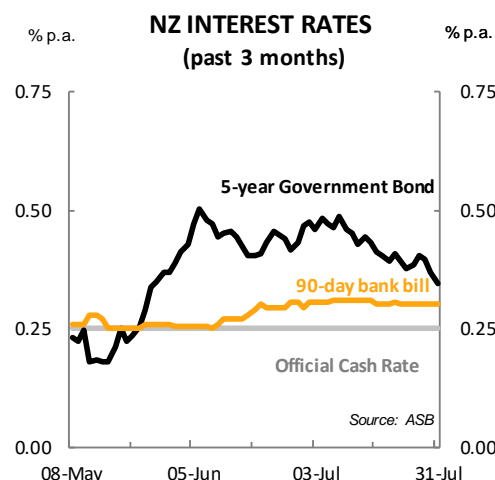


Term deposit interest rates and mortgage rates continue to ease lower, and both were trimmed during July. For amounts over \$10k, term deposit rates for 1-5 years are now between 1.40% and 1.5% (a decline of between 1% and 1.15% on where they were prior to the RBNZ's March cut). Rates for shorter 3-month terms are now around 0.65%, and 4- to 12-month rates are between 0.9% and 1.4% (down by 0.5%-1.3% 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

Government bond yields were extremely volatile in late March, and again in early June. But overall, the RBNZ's 0.75% OCR cut and the subsequent "Large Scale Asset Purchase Programme" has so far done what it needed to do to reduce volatility and drive key fixed interest rates lower.

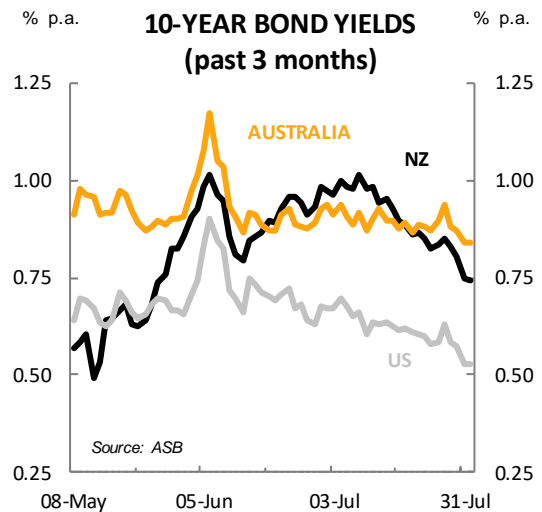
The New Zealand 10-year Government Bond yield closed at an all-time low of 0.49% on 13 May, and is trading around 0.25% above that level now, having spent July trading from a peak around 1%, back down to 0.75% at the time of writing. Bank and corporate bond yields also remain very low in New Zealand at present, with investment grade yields around 1% or lower for offerings out to 3 years.



## International Fixed Interest

After a spike in early June, volatility in bond markets has reduced, and yields have largely pressed lower.

Government bond yields remain negative out to the 10-year tenor in France and Germany and trade near zero in Japan. UK 10-year Government Bond yields remain positive, albeit sub 0.5%. UK and US 10-year yields have remained positive, and not far off their respective record lows in July. Subsequently, the US 10-year yield has set all-time low on 4<sup>th</sup> August (0.51%). Interestingly, that low was set while an all-time high was simultaneously reached in gold prices (US\$2009/ounce). Normally that sort of action could be explained by some sort of flight to the safety of Treasury bonds and gold while equities sold off, but not this time. The US NASDAQ index of shares also had a record high close on 4<sup>th</sup> August, and the MSCI index of world shares is at a record high. We live in interesting times, and for fixed interest we 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

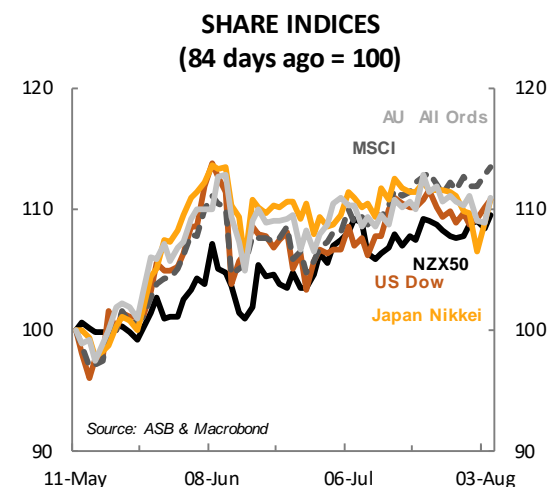
Asset	Index	31-Jul-20 Level	Month %	Quarter %	Year %	5-Year %p.a.
Equities	NZ - NZX50 Capital (NZ\$)	4966	2.3%	11.0%	4.9%	10.5%
	- NZX50 Gross (NZ\$)	11728	2.4%	11.4%	7.7%	14.6%
	AUS - All Ords (A\$)	6058	0.9%	8.2%	-12.2%	1.3%
	All Ords in NZD	6524	1.4%	9.1%	-9.6%	0.7%
	JAP - Nikkei (¥)	21710	-2.6%	7.5%	0.9%	1.1%
	UK - FT100 (£)	5898	-4.4%	-0.1%	-22.3%	-2.5%
	US - S&P500 (US\$)	3271	5.5%	12.3%	9.8%	9.2%
	WORLD - MSCI (US\$)	2305	4.7%	12.3%	5.4%	5.5%

## Australasian Equities

Australasian markets were positive in July, with the NZX50 Gross index up 2.3%, and Australia's All Ords index up 0.9% over the month, building on the gains recorded the preceding three months. At the time of writing in early August, the NZ sharemarket has surpassed its February peak, while the Australian market is still around 15% off its highs.

## International Equities

Global sharemarkets have continued to recover from the lows reached on March 23, but it hasn't been even. US share indices are close to, or in the case of the NASDAQ, fully recovered. In contrast, the UK FTSE index of shares remains significantly down on its record high (-18.8% at the time of writing). Over June the US Dow rose 2.4%, the S&P 500 rose 5.5%, and the NASDAQ rose 6.8%. Once again, the tech-heavy NASDAQ outperformed other indices in July. In Asia, Japan's Nikkei index lost 2.6%. In Europe, the UK's FTSE lost 4.4% while the German Dax index was flat. At the time of writing the NASDAQ index of US Shares is back at an all-time high. The S&P 500 index of US shares is 1% off its all-time high set back in February. The MSCI World share index is also back trading



at its peak in USD terms. There is still a way to go for some sharemarkets including the UK and Australia, but the recovery is impressive nonetheless, given many markets were down 30-35% in late March. But further volatility should be expected, given the range of uncertainties that the coming months hold.

Investors have reacted positively to the policy support from central banks and governments over the second quarter and into the third, as well as the progress made to get economies back to work. Although several developments have been encouraging (particularly the US labour market), we still expect several months of tough data and company announcements that will reveal the economic impact of the lockdowns. The developments of the pandemic itself will continue to be challenging, particularly when areas return to lockdown, such as Victoria recently. If that's not enough, US-China tensions remain an issue, and the November US elections will likely be a tough battle. We expect that bouts of volatility will continue while the markets grapple with these uncertainties.

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

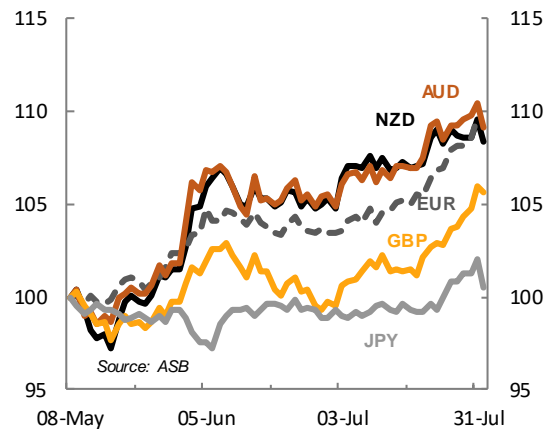
## Exchange Rates

From a low point near 0.5600 USD in March, the NZD has climbed over 10c to a peak over 0.6700 in July. A lot of this move has been about a weaker USD. Over July NZD/USD lifted 4.4%. The USD index decreased by 4.2% in July, and the USD decreased against all the major currencies. At the time of writing in early August the NZD has eased back to trade near 0.6650.

Other currencies such as the AUD, GBP and EUR lifted more against the USD than the NZD over July. Accordingly, the NZD weakened on these cross rates during the month. JPY has also eased lately, and NZD/JPY rose 1.1% over July.

The NZD/AUD cross rate has eased back below 0.9300 in July, dipping 0.4% over the month.

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



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