Markets Monthly

08 December 2020

Sharemarkets and the NZD shoot the lights out

Sharemarkets surged over the month, with many global sharemarkets posting their biggest monthly percentage gains in decades.

Bond yields rose over the month as investors priced in a more optimistic 2021.

The US election results and progress in the development of vaccines to protect against the COVID-19 virus were key drivers.

In currency markets, the Kiwi has been flying. NZD/USD lifted nearly 6%, and the NZD trade-weighted index was up 3.8% over November.

Date		30-Nov-20	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-0.75	-2.50
	NZ 90-day bank bill	0.25	-0.03	-0.04	-0.98	-2.59
Fixed	NZ 5-year gov't stock	0.29	0.26	0.14	-0.81	-2.68
Interest	NZ 10-year gov't	0.85	0.32	0.22	-0.44	-2.68
	AUS 10-year gov't	0.90	0.07	-0.09	-0.14	-1.95
	US 10-year gov't	0.84	0.02	0.11	-0.94	-1.39
Australasian	NZ - NZX50 Capital (NZ$)	5361	5.6%	6.2%	10.3%	76.2%
	- NZX50 Gross (NZ$)	12769	5.7%	7.0%	12.7%	109.3%
Equities	AUS - All Ords (A$)	6742	9.9%	7.9%	-3.0%	29.2%
International	JAP - Nikkei (¥)	26434	15.0%	14.2%	13.5%	33.9%
Equities	UK - FT100 (£)	6266	12.4%	5.1%	-14.7%	-1.4%
	US - S&P500 (US$)	3622	10.8%	3.5%	15.3%	74.1%
	WORLD - MSCI (US$)	2583	12.7%	5.2%	12.7%	52.5%
	- MSCI return in NZD		6.4%	0.7%	3.0%	41.9%
Exchange	NZD/USD	0.7024	5.9%	4.5%	9.4%	7.4%
Rates	NZD/AUD	0.9510	1.1%	4.0%	0.3%	4.6%
	NZD/JPY	72.99	5.4%	2.8%	3.8%	-9.1%
	NZD/GBP	0.5267	2.7%	4.5%	5.9%	21.1%
	NZD/EUR	0.5868	3.4%	3.9%	0.6%	-5.0%
	NZ TWI	74.02	3.8%	2.7%	3.9%	3.8%

Equity indices are the respective end-of-month closes. Interest rates and exchanges rates are at 5pm NZ. Source ASB, Macrobond.

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.

November news wrap

November was action packed with events, including a rate cut in Australia, the US election and associated dramas, and arguably the best news of all: a vaccine for Covid-19 getting announced by several companies. These developments spurred sharemarkets around the world and saw bond yields lift away from recent lows.

The RBA cut its key policy rates to 0.1% at the start of November, and Governor Lowe explicitly stated, “if we need to do more, we can and we will.” The RBA held rates steady in December, and next meets on the first Tuesday of February.

The RBNZ maintained current policy settings at its November review. The Bank did announce that it will implement its Funding for Lending Programme in December, and that started this week. We have changed our outlook for the OCR. We no longer expect further OCR cuts in the New Year, but that’s conditional on the Funding for Lending Programme (FLP) being effective in lowering interest rates in the economy. The economy still needs stimulus, but the FLP may now be enough. Our previous forecast of a 75bp OCR cut in April to -0.5% looks too big and too soon. The RBNZ’s next OCR review is in February. The RBNZ also indicated a reintroduction of the LVR restrictions will occur in March. This expectation is impacting lending practices now.

ASB economists weren’t alone in thinking that a negative OCR was now less likely in New Zealand. Government bond yields rose in line with the view, with the 5- and 10-year bond yields up 26bps and 32bps respectively as market participants repriced expectations of the RBNZ outlook. Bond yields increased in Australia and the US, but by small amounts compared to New Zealand’s gains.

In the US, the election held centre stage, and after a month President Donald Trump still refuses to accept defeat. Despite regular claims of voter fraud, Trump’s lawyers have not gained any traction with their many legal challenges to the results. Democrats retained control of the House of Representatives, whilst Republicans look likely to keep the Senate, unless Democrats win the two run-offs being held next year (in which case the Senate would be split 50:50, though the Vice President would be able to cast a tie-breaking vote in the Democrat’s favour). As we mentioned in last month’s report, the result has been seen as a ‘goldilocks’ outcome for equities: a changing of the guard in the White House hopefully means a more predictable four years ahead, but the split in the congress will limit the chances of big tax or regulatory changes.

The NZD posted gains on all the major currencies over the month, appreciating nearly 6% against the USD and 3.8% on a trade-weighted basis over November.

Income Assets

Asset	Instrument	30-Nov-20 Yield (%)	Month	Quarter	Year	5-Year
			Yield Change			
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-0.75	-2.50
	NZ 90-day bank bill	0.25	-0.03	-0.05	-0.98	-2.59
	US 90-day bank bill	0.23	0.01	-0.05	-1.68	-0.19
Fixed	NZ 5-year gov't stock	0.29	0.26	0.14	-0.81	-2.68
Interest	NZ 10-year gov't	0.85	0.32	0.22	-0.44	-2.68
	NZ 10-year swap	0.63	0.00	0.02	-0.86	-2.91
	AUS 10-year gov't	0.90	0.07	-0.09	-0.14	-1.95
	US 10-year gov't	0.84	0.02	0.11	-0.94	-1.39

Cash

The RBNZ delivered a fresh set of economic forecasts but made no changes to its Official Cash Rate settings at its meeting in November. Term deposit rates were steady over the month too. However, the RBNZ has continued to express its desire to get interest rates within the economy even lower.

The RBNZ’s Funding for Lending Programme (which starts this month) is one way for the RBNZ to keep the lid on interest rates, through providing a backstop of cheap funding and enabling banks to lower borrowing costs with less fear of the consequences of any outflow in deposit funding. The other viable option is lowering the OCR from its current 0.25% rate, which we think the RBNZ will hold in reserve.

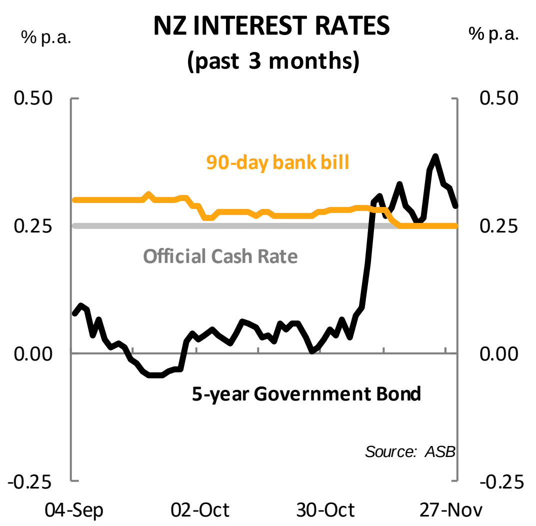
The upshot of it is we still see the risk for savers is that term deposit rates remain low for an extended period (years) and could press even lower than today's levels over the year ahead. You can read more in our Term Deposit report, and the latest ASB term deposit rates can be found here.

NZ Fixed Interest

NZ Government bond yields hit their lows in late September, with the 5-year yield in negative territory, and the 10-year yield dipping below 0.5%. Yields drifted slightly higher over October, then kicked up markedly in November, with the 5- and 10-year bond yields up 26bps and 32bps respectively over the month.

Most of the move came between 5-13 November, as the US election results unfolded, and the RBNZ met. Market pricing swung from pricing in an OCR endpoint of about -0.20% at the start of the month to just above 0% in the wake of the meeting. Essentially NZ yields have shifted higher as market participants reassessed the need for OCR cuts given the vaccine news, the economy holding up much better than earlier thought, and also the December launch of the RBNZ's Funding for Lending Programme.

Over the month ASB economists (and others) changed forecasts, and no longer expect a negative OCR. Meanwhile the RBNZ's bond purchases continued over the month and will ultimately keep government bond yields low, despite the lift in November.

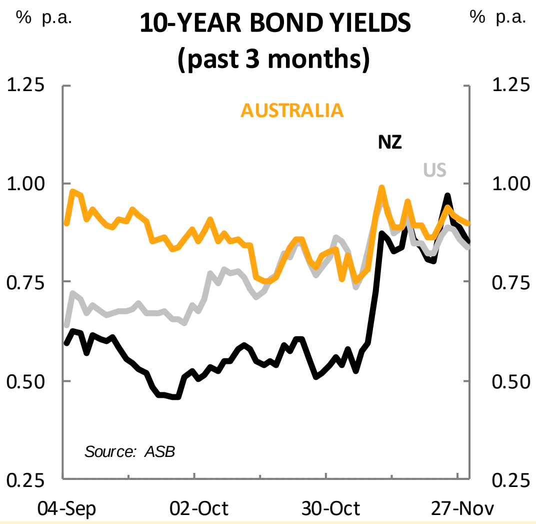


International Fixed Interest

Global bond yields have been mixed over recent months, with North American yields generally rising, and trading with positive yields, while key European yields remain negative, and trading near their lows of recent months. UK yields remain positive, with the 10-year yield near 0.3%, while Japanese 10-year yields continue to trade around 0%.

US 10-year yields rose 2bps over the month to be up 11bps over the past three months.

The yield on the Australian 10-year yeild rose 7bps over the month, but is still down 9bps over the past three months.



The RBA cut a series of its policy rate tools in November, a move widely expected ahead of the meeting. The cash rate target, the yield target for bond buying, and the interest rate charged to banks for new funding drawdowns were all cut from 0.25% to 0.1%. The RBA re-commenced yield curve control on the 3-year target area and started a bond purchase program of $A100bn of ACGBs/Semis (80%/20% split) over the next 6 months, buying bonds from the 5-year to 12-year tenors.

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.

The decline in yields over the past year has boosted the value of bonds held within portfolios. But the low/negative interest rate environment is a significant constraint on the running yield of bond portfolios, and future returns.

Growth Assets

Asset	Index	30-Nov-20 Level	Month %	Quarter %	Year %	5-Year %p.a.
			Change			
Equities	NZ - NZX50 Capital (NZ$)	5361	5.6%	6.2%	10.3%	12.0%
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Australasian Equities

Australasian equities posted strong gains over the month, although the increases here were eclipsed by the outsized gains in the US, Europe and Japan over November. The NZX50 index gained 5.7% (gross), to be up 12.7% on a year ago. The Australian All Ords index was stronger in November (+9.9% in AUD terms), but earlier weakness leaves the Australian benchmark down 3% on a year ago.

Fletcher Building has faced several headwinds over recent years, but lifted nearly 37% last month, after releasing updated first-half 2021 guidance at its Annual Shareholders Meeting.

In terms of investment themes, it was a strong month for value stocks relative to growth, as investors saw the positive vaccine news improving the prospects for a return to some sort of normality over the course of 2021. In this vein, many commodity prices have lifted over the month, and BHP rallied as copper and iron ore prices hit 7-year highs. Across Australia's 22 sub industry sectors, all but three posted gains in November. Leading the gains was Energy (up 28.4% (reflecting the above-mentioned commodity price gains), while banks were up 17.2%, having fallen heavily earlier in the year.

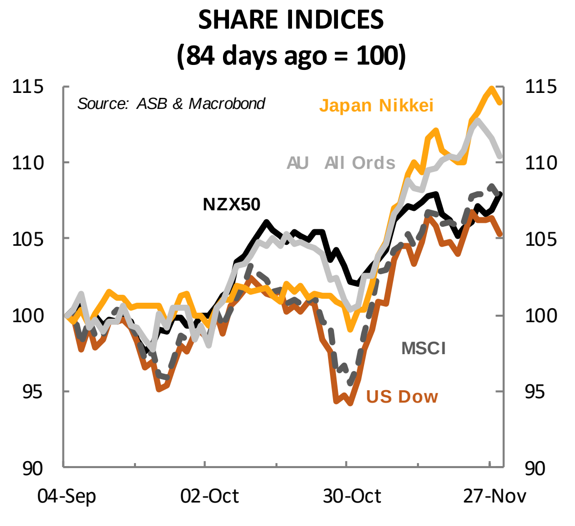
International Equities

The major global indices all ended October lower, but have bounced back dramatically in the wake of the US election. As we mentioned in last month's report, it seems investors for now see the result as a 'goldilocks' outcome – with hopes of a more predictable President, the potential for an easing in trade tensions, but no major tax or regulatory changes either. Still, there is the runoff for two senate seats in Georgia next year, that will determine control of the Senate, and therefore, this notion, and Joe Biden's agenda. But it appears that investors see that as next year's issue.

Meanwhile, the news of successful COVID-19 vaccine trials has really kicked in and fueled optimism about longer term global growth prospects, despite the bad near-term news of rising cases in many of the world's major economies.

The MSCI world index fell 3.1% over October but rebounded 12.7% over November, setting fresh all-time highs over the course of the month. In November the US Dow Jones index rose by 11.8%, recording the best gain since January 1987, while the S&P 500 index gained 10.8% and the Nasdaq index rose by 11.8%. For European stocks, it was the strongest month on our records. The German Dax index rose by 15% and the UK's FTSE lifted 12.4%. In Asia, Japan's Nikkei index rose 15% over the month.

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



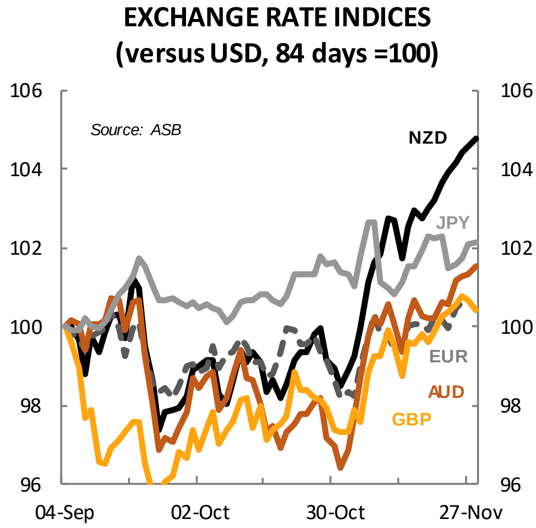
Exchange Rates

Weakness of the USD continued through November, with the greenback falling against the all the major crosses during the month. News of the development of vaccines for COVID-19 are providing confidence for the global economic outlook.

We regard the USD as a 'counter-cyclical' currency, and generally expect to see the USD fall when the global economic outlook is improving. In contrast, the NZD is "pro-cyclical", and tends to strengthen on improving global growth prospects.

The NZD posted gains on all the major currencies over the month, appreciating nearly 6% against the USD and 3.8% on a trade-weighted basis.

More information about currencies is available in ASB's weekly economic report which can be downloaded here.



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