

Markets Monthly

03 May 2018

Sharemarkets, yields, and the USD lift over April.

- Global sharemarkets lifted in April, but the February and March declines kept indices negative for the quarter.
- The New Zealand sharemarket posted modest gains and is only around 2% below the 2018 highs.
- Long term government bond yields moved higher over the month, with US 10-year Treasury yields breaching 3%.
- Credit spreads have been widening over recent months, but were fairly stable in April
- Oil prices have pressed higher, with prices at their highest level since 2014.
- The RBNZ's new Governor Adrian Orr makes his first OCR announcement on May 10. No change is expected.

Global sharemarkets stabilised in April, after two months of declines in February and March. The month's gain for US shares was modest, while Japan and the UK posted quite large gains over the month. Australasian markets were also positive, with New Zealand and Australian sharemarkets up 1.5% and 3.5% respectively.

Having spent much of March fretting about US-China trade skirmishes, in April investors were encouraged by positive US quarterly company earnings and robust Chinese economic growth data. March's trade tensions eased after Chinese President Xi Jinping's announcement that he would promote import growth and open up the Chinese services sector to increased foreign investment.

There was plenty of action in global bond markets in April, led by a strong lift in US yields. After consolidating in March, the US 10-year government bond yield rose sharply in April, to a peak of 3.05%. This was the highest yield for the 10-year bond since 2014. A late-month rally saw the US 10-year yield close at 2.96%. But even with the late rally, yields were up circa 20bps over the month and 67bps over the year.

Australia and New Zealand bond markets followed the US moves in April, although the New Zealand sell off was not as strong. The 10-year yield here lifted a more modest 12 bps over the month, and New Zealand yields are still down on year-ago levels. In contrast, US and Australian 10-year yields are higher than a year ago. Following the April's moves, the Australian and New Zealand Government bond yields remain in the unusual position of being lower than their US counterparts.

The other big mover for the month was the USD. The USD has been in a downtrend since early 2017, but rose over 3% in the second half of April (measured by the DXY USD index). Evidence of faster US inflation and encouraging US economic growth pushed US Treasury yields higher and underpinned a firmer USD. The broad-based USD strength saw NZD/USD dip 1.6% over April. NZD/USD eased from a high of 0.7395 on 13 April to a low of 0.70340 on 30 April.

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](#).

Date		30-Apr-18	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	1.75	0.00	0.00	0.00	-0.75
	NZ 90-day bank bill	2.02	0.06	0.13	0.04	-0.63
Fixed Interest	NZ 5-year gov't stock	2.36	0.08	-0.04	-0.07	-0.33
	NZ 10-year gov't	2.83	0.12	-0.07	-0.22	-0.35
	AUS 10-year gov't	2.78	0.19	-0.03	0.20	-0.31
	US 10-year gov't	2.96	0.19	0.25	0.67	1.29
Australasian Equities	NZ - NZX50 Capital (NZ\$)	3831	1.4%	-1.1%	10.3%	48.5%
	- NZX50 Gross (NZ\$)	8444	1.5%	0.7%	14.4%	84.3%
Equities	AUS - All Ords (A\$)	6072	3.5%	-1.2%	2.1%	17.5%
International Equities	JAP - Nikkei (¥)	22468	4.7%	-2.7%	17.0%	62.1%
	UK - FT100 (£)	7509	6.4%	-0.3%	4.2%	16.8%
	US - S&P500 (US\$)	2648	0.3%	-6.2%	11.1%	65.8%
	WORLD - MSCI (US\$)	2087	1.0%	-5.7%	11.1%	41.3%
	MSCI in NZD (NZ\$)	2947	2.6%	-1.8%	7.9%	70.9%
Exchange Rates	NZD/USD	0.71	-1.6%	-4.0%	3.0%	-17.3%
	NZD/AUD	0.94	-0.5%	2.4%	1.6%	13.1%
	NZD/JPY	77.29	0.7%	-3.8%	1.1%	-7.8%
	NZD/GBP	0.51	0.5%	-1.3%	-3.6%	-7.0%
	NZD/EUR	0.58	-0.1%	-1.7%	-7.8%	-10.7%
	NZ TWI	73.53	-0.7%	-2.1%	-1.6%	-5.9%

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

Income Assets

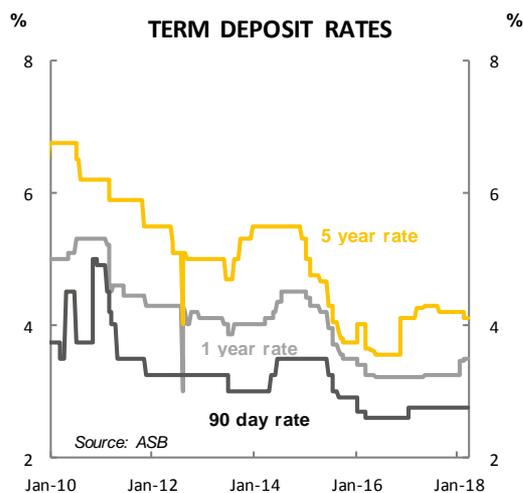
Cash

The RBNZ's new Governor Adrian Orr makes his first OCR announcement on May 10. The Reserve Bank of New Zealand (RBNZ) has held the Official Cash Rate (OCR) at 1.75% since November 2016, and this stance is expected to continue with the new Governor and new Policy Target Agreement. With inflation yet to pick up materially, the RBNZ should remain comfortable with earlier forecasts that suggest it will leave the OCR on hold until at least the second half of 2019.

If OCR hikes are a long way off, most short-term fixed interest returns on term deposits will likely stay near current levels over the year ahead. **Term deposit rates** are between 2.75% to 4.1% for terms between 90 days and 5 years for term deposits over \$10K. Over the past 10 years deposit rates have averaged between 0.9% and 1.5% higher than the current rates available for the various terms.

The upward pressure on long-term global rates that resumed in April, if sustained, could translate to slightly higher interest rates on some of the longer term deposit rates. We are factoring in upward pressure on the longest term deposit rates over the year from lifting global rates. However, we expect term deposit rates for all terms to remain low this year relative to the long-term averages mentioned above.

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



NZ Fixed Interest

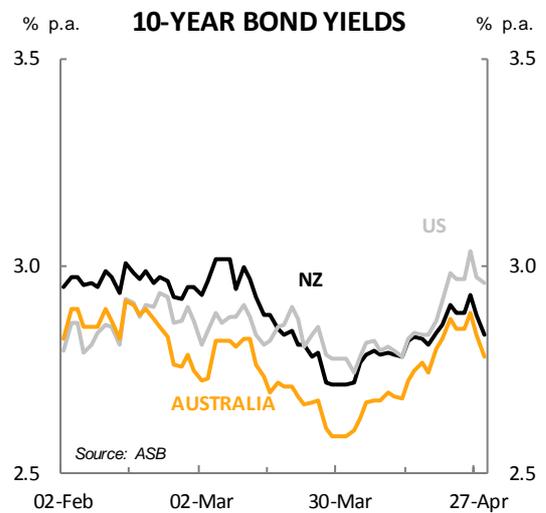
New Zealand Government bonds continue to trade with lower yields than their US counterparts, but followed a similar track in April. Yields rose over most of the month, but unwound some of the lift with a rally into month-end.

We continue to expect long-term local bond yields to rise modestly over the year ahead, which will eventually boost the income for investors receiving income from fixed interest investments. Despite this, we expect the return on NZ fixed income investments over the year ahead will remain lower than long-term averages.

International Fixed Interest

The US Federal Reserve lifted the Federal Funds rate by 25 basis points, as expected in March, but did not hold a meeting in April. In early May the Fed left their policy rates on hold, but stated that economic conditions would likely “warrant further gradual increases in the federal funds rate”. There was little impact on US yields, with those for 10-year Treasuries at 2.98%. On April 24, 10-year Treasury yields broke through 3% for the first time in four years. Rising oil prices boosted inflation expectations, as did Fed signals of further hikes, with the calming in geopolitical and trade tensions and improved tone in share-markets all playing a part in lifting yields. Yields did dip lower into month end, but we continue to think that the overall direction for US yields is up over the year ahead. The US Federal Reserve is likely to increase interest rates at least two more times this year, and again next year. Those hikes and ongoing positive economic developments underpin our expectation that US bond yields will rise. In saying that, we expect yields to remain significantly below pre-GFC historical averages. Between 1998 and 2008 the US 10-year government bond yield averaged 4.8%, whereas we expect US 10-year yields to remain under 3.5% over the next few years.

In Europe, 10-year German bund yields lifted from around 0.5% at the end of March to an April high of 0.65%, only to rally back down to around 0.55% by month end. Eventual policy normalization from the ECB is expected to put upward pressure on European government bond yields, many of which are still negative.

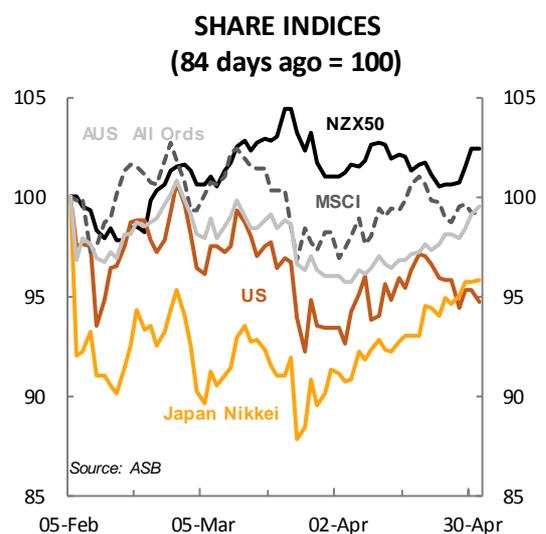


Growth Assets

Australasian Equities

April was a positive month for local shares, with the NZX50 Gross Index lifting 1.5% over the month, to be 0.7% higher over the past three months, and 14.4% higher over the year. At the time of writing the index is within 2% of its all-time high recorded earlier this year. Fletcher Building lifted 6.5% over the month, trailing only Synlait Milk’s 16.2% lift at the top of the board. Kathmandu lifted 7.4% and Auckland International Airport lifted 3.1% over the month. At the other end of the list a2 (-3.2%) and Fisher & Paykel (-2.6%) gave up part of the strong gains recorded in earlier months.

The Australian All Ords share index lifted 3.5% in April. Nineteen of the 22 sub-industry sectors in Australia rose. Energy (up 10.8%), Pharmaceuticals (up by 9.1%) and Materials (up by 7.6%) were strong performing sectors over the month. The Resources sector rose 9.8%, boosted by rising commodity prices. Over April, prices for crude oil rose 5.6%, iron ore prices were up by 3.7%, and thermal coal prices rose by 3.1%.



International Equities

Global sharemarkets stabilised in April, after two months of declines in February and March. The month's gain for US shares was modest, with the S&P 500 index up only 0.3%. A robust US earnings season supported shares, but failed to lift the market into month-end as rising inflation concerns and higher yields all played a part. After its troubles in March, Facebook bounced back by 9.1% after reporting its latest earnings result in late April. Other shares boosted by their latest earnings results in late April included Amazon (which rose by 3.6%), and Microsoft (up 1.7%).

In contrast to modest US sharemarket gains, the UK's FTSE index rebounded 6.4% over April. Japanese shares also had a strong recovery in April, with the Nikkei index lifting 4.7% (both measured in local currency terms). Australasian markets were also positive, with New Zealand and Australian sharemarkets up 1.5% and 3.5% respectively.

Having spent much of March fretting about US-China trade skirmishes, in April investors were encouraged by positive US quarterly company earnings and robust Chinese economic growth data. The IMF maintained its positive outlook, with global growth forecast to be 3.9% in 2018. If that forecast proves correct, it will be the highest annual global growth rate since 2011.

The trade tensions that troubled markets in March and early April eased after Chinese President Xi Jinping's announcement that he would promote import growth and open up the Chinese services sector to increased foreign investment. US President Trump praised President Xi's speech. The historic meeting between the leaders of North and South Korea was another positive development in the region during April.

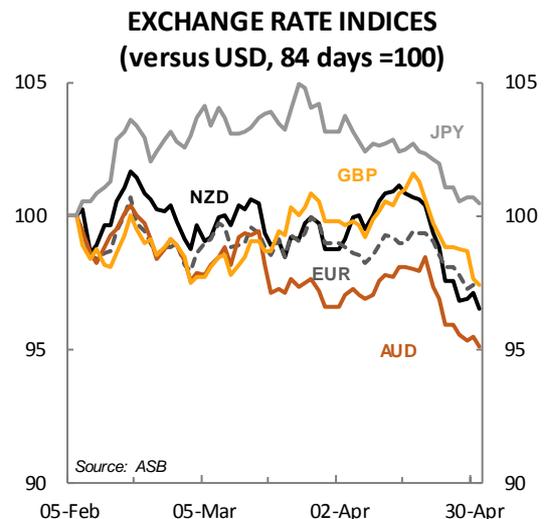
ASB Securities has more information on sharemarkets and trading [here](#).

Exchange Rates:

USD strength in the second half of the month was the key theme in currency markets during April.

The USD had been in a downtrend since early 2017, but rose over 3% in the second half of April (as measured by the DXY USD index). The NZD eased 1.6% against the firming USD over the month, and the USD also posted gains against EUR, GBP, JPY, and AUD.

NZD performance against other currencies was mixed over April, with NZD easing against AUD and EUR but gaining vs-a-vis JPY and GBP. On a trade-weighted basis the NZD eased 0.7% over the month.



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