

Markets Monthly

05 March 2020



Virus concerns escalate in February

- Global sharemarkets plunged in late February, as investors became increasingly concerned about the spread of the COVID-19 coronavirus. All the major global indices we monitor were negative for the month.
- After posting solid gains in January, and setting record highs during February the NZ and Australian sharemarkets declined in February, and are in negative territory over the 2020 year-to-date.
- New Zealand, Australian and US 10-year Government Bond yields have all set fresh record lows in early March. The US Federal Reserve and the RBA eased their monetary policy settings in March.
- The NZD dipped over the month, declining 3.5% against the USD and 2.2% on a trade-weighted basis.

Date		29-Feb-20	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	1.00	0.00	0.00	-0.75	-2.50
	NZ 90-day bank bill	1.05	-0.21	-0.18	-0.84	-2.58
Fixed Interest	NZ 5-year gov't stock	0.86	-0.23	-0.24	-0.80	-2.35
	NZ 10-year gov't	1.06	-0.25	-0.24	-1.10	-2.23
	AUS 10-year gov't	0.86	-0.11	-0.18	-1.24	-1.62
	US 10-year gov't	1.26	-0.32	-0.51	-1.41	-0.76
Australasian Equities	NZ - NZX50 Capital (NZ\$)	4821	-4.0%	-0.8%	16.7%	57.4%
	- NZX50 Gross (NZ\$)	11261	-3.9%	-0.6%	20.7%	91.6%
	AUS - All Ords (A\$)	6512	-8.6%	-6.3%	4.1%	10.4%
International Equities	JAP - Nikkei (¥)	21143	-8.9%	-9.2%	-1.1%	12.5%
	UK - FT100 (£)	6581	-9.7%	-10.4%	-7.0%	-5.3%
	US - S&P500 (US\$)	2954	-8.4%	-5.9%	6.1%	40.4%
	WORLD - MSCI (US\$)	2141	-8.6%	-6.6%	2.7%	20.8%
	MSCI in NZD (NZ\$)	3424	-5.3%	-4.1%	12.4%	45.7%
Exchange Rates	NZD/USD	0.6253	-3.5%	-2.6%	-8.7%	-17.1%
	NZD/AUD	0.9564	-0.8%	0.9%	-0.2%	-1.2%
	NZD/JPY	68.26	-3.4%	-2.9%	-10.1%	-24.2%
	NZD/GBP	0.4857	-1.8%	-2.3%	-5.7%	-0.6%
	NZD/EUR	0.5690	-3.2%	-2.4%	-5.4%	-15.5%
	NZ TWI	70.02	-2.2%	-1.7%	-5.3%	-10.7%

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](#).

Market News

Positive sentiment regarding the global outlook helped send sharemarkets to all time highs in early 2020. The buoyancy continued during the first weeks of February as investors shrugged off concerns about the impact of the COVID-19 coronavirus.

Sharemarkets had initially dipped as coronavirus concerns started to intensify in late January, only to recover in early February. The local market closed at a record high as recently as 21 February, while the peak for the S&P 500 index of US shares was a couple of days earlier. The peak for the MSCI world share index was around 12 February, and it hovered within 1% of that high until 20 February.

However, the mood changed dramatically in late February, as reported cases of the illness spread to more and more countries, including New Zealand. Over the last days of the month the local sharemarket dipped around 7%, the Australian sharemarket was down 10%, and the MSCI World index was down 12%.

Fixed interest yields have plunged lower this year. 10-year government bond yields in New Zealand, Australia and the US have all touched all-time lows in early March. In contrast to the dramatic slide in shares that came late in February, fixed interest yields have been sliding lower all year. The coronavirus threat to economic growth has led to a surprise cut to the US Federal Funds Rate in March. In an unusual inter-meeting move, the Federal Open Market Committee (FOMC, or “the Fed”) has cut the Federal Funds Rate target range by 50bp to 1.00% 1.25%. The cut was because “the coronavirus poses evolving risks to economic activity”. At their conference call in March, G7 finance ministers and central bankers agreed to “use all appropriate policy tools to achieve strong, sustainable growth and safeguard against downside risks.” The Reserve Bank of Australia also cut its cash rate in March. RBA Governor Lowe noted “the coronavirus outbreak overseas is having a significant effect on the Australian economy at present, particularly in the education and travel sectors. The uncertainty that it is creating is also likely to affect domestic spending”. We think the RBA could cut the cash rate again in the coming months, and expect a targeted fiscal response from the Australian Government. The People’s Bank of China has also cut interest rates to support the economy.

The RBNZ met on 12 February, and held the Official Cash Rate at 1%. At the time the RBNZ commented the COVID-coronavirus outbreak was “an emerging downside risk”. The RBNZ’s assumed “the overall economic impact of the coronavirus outbreak in New Zealand will be of a short duration, with most of the impacts in the first half of 2020”. However, the RBNZ also acknowledged the risk that “the impact will be larger and more persistent”. This now appears to be the more likely scenario, and ASB expect the RBNZ to cut the OCR to 0.5% over the coming months ([read more here](#)).

The NZD has weakened as global growth concerns have increased over recent months. Over February the NZD declined 3.5% against the USD and 2.2% on a trade-weighted basis. We expect the NZD to remain heavy over the coming months due to the clouded outlook for the global economy.

Income Assets

Asset	Instrument	29-Feb-20 Yield (%)	Month	Quarter	Year	5-Year
		Yield Change				
Cash	NZ Official Cash Rate	1.00	0.00	0.00	-0.75	-2.50
	NZ 90-day bank bill	1.05	-0.21	-0.18	-0.84	-2.58
	US 90-day bank bill	1.58	-0.18	-0.33	-1.05	1.32
Fixed Interest	NZ 5-year gov't stock	0.86	-0.23	-0.24	-0.80	-2.35
	NZ 10-year gov't	1.06	-0.25	-0.24	-1.10	-2.23
	NZ 10-year swap	1.20	-0.24	-0.30	-1.26	-2.57
	AUS 10-year gov't	0.86	-0.11	-0.18	-1.24	-1.62
	US 10-year gov't	1.26	-0.32	-0.51	-1.41	-0.76

Cash

At its 12 February meeting the RBNZ looked comfortable with the OCR on hold at 1%. At the time the RBNZ commented the COVID-19 (coronavirus) outbreak was “an emerging downside risk” to the economic outlook. The RBNZ wasn’t alone in this thinking, and until very recently, other central banks had also been reluctant to respond to the risk. But the situation has worsened over recent weeks, with a big change being the spread to other regions, particularly the large outbreaks in South Korea, Italy and Iran. The RBA rate cut on 3 March, and the US Federal Reserve’s decision to cut the Federal Funds rate between scheduled meetings has strongly reinforced that view of a low threshold for the RBNZ to act.

We have pencilled in 25bp cuts for each of the March and May meetings, which would take the OCR to a fresh low of 0.5%. What we’d warn at this point is the range of outcomes remains wide, and this forecast should be viewed as indicative– watch this space.

Term deposit interest rates have been steady since late November. For amounts over \$10k, term deposit rates for 2-5 years are around 2.5%. Rates for shorter 3-month terms are now slightly below 2%, and 4- to 12-month rates are between 2% and 2.6%. We think the risk for savers is that term deposit rates move even lower, particularly if the OCR is cut further over the coming months.

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

NZ Fixed Interest

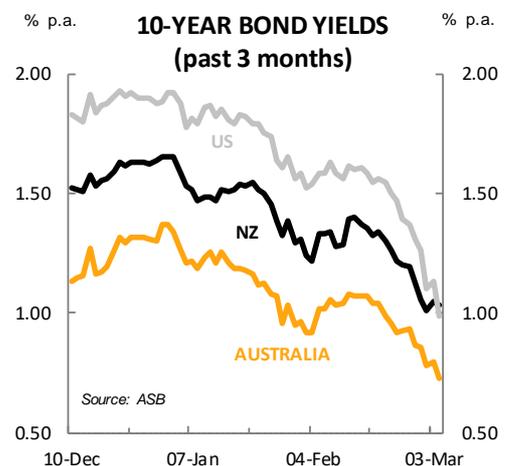
Last year the NZ 10-year Government bond yield dipped briefly below 1% in August and again in early October. But from those lows, yields moved steadily higher over the remainder of 2019. The 10-year Government bond yield ended 2019 at 1.65%. As coronavirus fears have intensified over the past month, the 10-year Government bond yield has ground back down to under 1% again and is 0.97% at the time of writing. Corporate bond yields also declined significantly over February, with investment grade yields in the local market collapsing down into a 1-2% range.

Bond prices move in the opposite direction to yield, so the late 2019 rise and 2020 fall in yields has caused some volatility in bond portfolio valuations. NZ corporate and Government Bond yields are significantly lower than a year ago. Accordingly, this has supported annual returns for portfolios, even though month-to-month returns have been choppy over the past six months. We expect NZ fixed interest yields to remain low over the year ahead.

International Fixed Interest

Fears of a widespread economic slowdown due to the coronavirus had already driven global bond yields lower in January and February, then the Fed’s rate cut in early March added to the downward pressure on yields. Only a month ago it appeared that the Fed was comfortably on hold for 2020. On 3 March the Federal Reserve announced an emergency intra-meeting interest rate cut, reducing the Federal Funds rate by 50bp to a range of 1.00% 1.25%. Federal Reserve Chair Jerome Powell said “The virus and the measures that are being taken to contain it will surely weigh on economic activity” for “some time”. US Treasury Secretary Steven Mnuchin said that G7 finance ministers and central banks had agreed to “do everything possible” to support economies from the effects of the COVID 19 coronavirus. US 10-year yields declined 32 basis points or 0.32% over the month of February and have dipped below 1% for the first time ever in the wake of the Fed’s rate cut in March. At the time of writing the 10-year bond is hovering just above 1%, whereas at the start of the year the same bond was trading with a yield near 1.90%.

Yields remain negative in much of Europe and Japan, and that is unlikely to change anytime soon. We expect the Bank of Japan and the European Central bank to maintain their negative policy rate settings and asset purchase programs.



Growth Assets

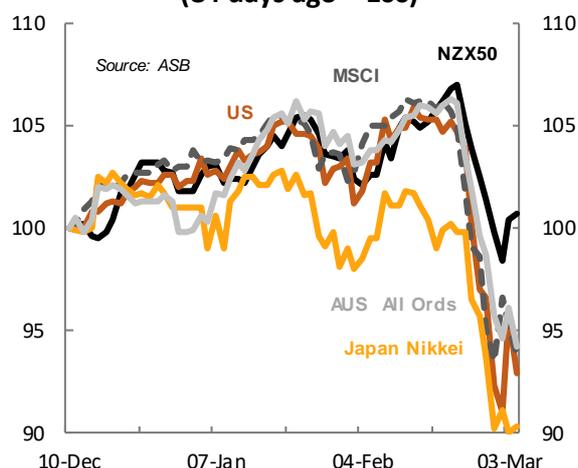
Asset	Index	29-Feb-20 Level	Month %	Quarter % Change	Year %	5-Year %
Equities	NZ - NZX50 Capital (NZ\$)	4821	-4.0%	-0.8%	16.7%	9.5%
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	AUS - All Ords (A\$)	6512	-8.6%	-6.3%	4.1%	2.0%
	All Ords in NZD	6808	-7.8%	-7.1%	4.3%	2.2%
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Australasian Equities

Australasian markets declined in February, with the NZX50 Gross index declining 3.9%, and the All Ords index down 8.6%. Both market indices had set record highs during February, before the coronavirus fears sent sharemarkets lower over the later stages of the month.

The New Zealand market has fared better than elsewhere over recent weeks, but is still down around 6% from its February high at the time of writing. Fisher & Paykel Healthcare (+10.6%) was the strongest performing NZX 50 stock for the month, while businesses exposed to transport and logistics were understandably in the red. The Australian market is down around 11% from the peak. Over February, 21 of Australia's 22 sub-industry sectors posted losses. Only consumer durables gained (up 4.2%).

SHARE INDICES (84 days ago = 100)



International Equities

Global sharemarkets started the month on the front foot, and European and US indices set record highs during the month. Early in the month investors were encouraged by earnings reports, reasonable economic data as well as China's moves to reduce tariffs on an array of US goods. Investors were also optimistic that the coronavirus could be contained to China. However, it all changed in the last week of the month as fears of a global pandemic escalated after Italy, South Korea and Iran all reported a surge in COVID-19 cases, and the US announced its first cluster of cases. The US Dow Jones Index, S&P 500 and the Nasdaq index were down 10% or more.

Elsewhere, the German Dax, UK FTSE index, and Japan's Nikkei index all fell by similar amounts and recorded their worst weekly performances since the global financial crisis.

Overall in February the US Dow Jones fell by 10.1%, the S&P 500 lost 8.4%, and the Nasdaq was down by 6.4%. In Europe, the German Dax index fell by 8.4% and the UK FTSE index lost 9.7%. We expect that volatility will continue while the markets grapple with the uncertainties of the coronavirus impact. But it won't be all one way like it was in late February – the 4-5% bounce in the main US indices on 2 March shows how quickly sentiment can turn in sharemarkets, and how difficult it is to pick turnarounds during bouts of volatility.

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

Exchange Rates:

NZD/USD was trading around 0.6750 in late 2019, but has eased to trade under 0.6200 in early March, as financial markets grapple with the implications of the coronavirus.

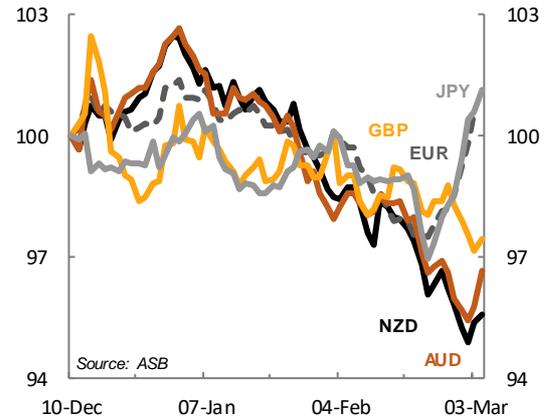
The AUD has also been easing against the USD, and NZD/AUD remains trading in a range between 0.9500-0.9650.

The NZD was down on all the other currencies monitored in this report, slipping 2.2% on a trade-weighted basis in February.

JPY and EUR performed strongly against other currencies over late February and early March. NZD lost 3.4% against JPY and 3.2% against EUR over February.

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)**



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