

Markets Monthly

10 February 2020



Virus concerns set the tone in markets

- Global sharemarkets started the month well, but subsequently eased in late January, as investors became increasingly concerned about the coronavirus outbreak.
- The NZ and Australian sharemarkets were positive over the month, gaining 2% and 4.7% respectively. The Australian sharemarket had its best January in eight years.
- Bond yields declined both here and abroad, reversing the lift recorded over Q4 2019. New Zealand yields remain above the all-time lows set in October, but well down on year-ago levels.
- The NZD dipped over the month, declining 3.7% against the USD and 2.6% on a trade-weighted basis.

Date		31-Jan-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	1.26	-0.03	0.14	-0.67	-2.40
Fixed Interest	NZ 5-year gov't stock	1.10	-0.26	0.08	-0.65	-2.05
	NZ 10-year gov't	1.31	-0.35	0.00	-0.95	-1.86
	AUS 10-year gov't	0.96	-0.41	-0.20	-1.28	-1.51
	US 10-year gov't	1.59	-0.30	-0.20	-1.10	-0.16
Australasian Equities	NZ - NZX50 Capital (NZ\$)	5021	2.0%	8.2%	26.0%	67.8%
	- NZX50 Gross (NZ\$)	11717	2.0%	8.6%	30.3%	104.0%
	AUS - All Ords (A\$)	7121	4.7%	5.1%	19.9%	28.3%
International Equities	JAP - Nikkei (¥)	23205	-1.9%	1.2%	11.7%	31.3%
	UK - FT100 (£)	7286	-3.4%	0.5%	4.6%	8.0%
	US - S&P500 (US\$)	3226	-0.2%	6.2%	19.3%	61.7%
	WORLD - MSCI (US\$)	2342	-0.7%	4.9%	15.5%	39.6%
	MSCI in NZD (NZ\$)	3617	3.1%	4.1%	23.3%	56.8%
Exchange Rates	NZD/USD	0.6477	-3.7%	0.7%	-6.3%	-11.0%
	NZD/AUD	0.9646	0.4%	4.0%	1.4%	3.3%
	NZD/JPY	70.63	-3.4%	1.1%	-6.2%	-17.8%
	NZD/GBP	0.4946	-3.4%	-0.5%	-6.0%	2.5%
	NZD/EUR	0.5875	-2.1%	2.1%	-2.2%	-8.5%
	NZ TWI	71.59	-2.6%	1.2%	-3.6%	-5.2%

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](#).

Market News

Positive sentiment regarding a US-China trade agreement drove sharemarkets higher during December, and over most of the first half of January. US-Iran tensions also influenced sentiment early in the month. A Chinese delegation travelled to Washington and signed “phase one” of the US-China trade agreement on 15 January. However, the mood changed over late January as the optimism about the economic growth outlook was eclipsed by concerns about the impact of the coronavirus.

Having set fresh record highs after the trade deal signing, the S&P 500 index of shares declined nearly 4% at one stage in late January. However, at the time of writing the US sharemarket has recouped that decline, and is back trading near record levels. The New Zealand sharemarket followed a similar pattern.

The Australian sharemarket declined over December, in contrast to the strong lifts observed in other markets. And in January the Australian sharemarket continued to march to its own tune, lifting 4.7% while other markets declined. The gain was the best start to the year for the Australian sharemarket in eight years.

Fixed interest yields declined over the month, reversing some of the Q4 2019 lift in yield both here and in offshore markets. 10-year government bond yields in New Zealand, Australia and the US all declined by 30 basis points or more over the month.

The USD was firm over the month, reflecting heightened geopolitical risks and the spread of the coronavirus. The escalation of tensions between US and Iran supported the USD early in the month. The signing of the phase one trade agreement between the US and China in mid-January only temporarily dented the USD’s uptrend. Concerns about the virus supported the USD in the second half of the month.

Both the NZD and AUD weakened significantly over the month, slipping 3.7% and 4.1% respectively vis-à-vis the USD. The Australian bushfires weighed on AUD during the month. The bushfire impact will be a key focus over the upcoming Australian reporting season.

Viral outbreaks typically result in a sharp, but relatively brief, shock to both the NZ and global economies. At this stage we anticipate a 0.6% hit to Q1 GDP relative to our baseline, primarily via lower services exports. However, a more severe outbreak globally could result in longer-lasting disruption to NZ exports and broader economic activity. ASB’s research note on the potential economic impacts of the coronavirus can be [downloaded here](#).

Income Assets

Asset	Instrument	31-Jan-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	1.26	-0.03	0.14	-0.67	-2.40
	US 90-day bank bill	1.76	-0.15	-0.15	-0.97	1.51
Fixed Interest	NZ 5-year gov't stock	1.10	-0.26	0.08	-0.65	-2.05
	NZ 10-year gov't	1.31	-0.35	0.00	-0.95	-1.86
	NZ 10-year swap	1.43	-0.35	0.01	-1.10	-2.20
	AUS 10-year gov't	0.96	-0.41	-0.20	-1.28	-1.51
	US 10-year gov't	1.59	-0.30	-0.20	-1.10	-0.16

Cash

The RBNZ looks comfortably on hold after the OCR was cut by 0.50% to a new record low of 1.00% last August. We have pencilled in one more OCR cut into our forecasts, but we can’t rule out the possibility that the RBNZ remains comfortable with current settings for an extended period. The RBNZ’s first meeting for 2020 is on 12 February. Term deposit interest rates drifted lower in the months following the August OCR cut. Since late November deposit interest

rates have been steady. 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. The imposition of higher bank capital requirements for locally-incorporated banks from the RBNZ is another potential downward pressure on term deposit rates (and/or upward pressure on borrowing rates).

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

NZ Fixed Interest

The NZ 10-year Government bond yield dipped briefly below 1% in August and again in early October, then moved steadily higher over the remainder of 2019. The 10-year Government bond yield ended 2019 at 1.65% but has been falling over 2020. By month-end the 10-year bond was yielding 1.31%, down 35 basis points over the month, but still over 30 basis points above the 2019 low point.

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. Although yields are still above the 2019 lows, NZ corporate and Government Bond yields remain incredibly low on a historical basis, and significantly lower than a year ago. Accordingly, this has supported annual returns for portfolios, even though month-to-month returns have been choppy lately.

We expect NZ fixed interest yields to remain low over the year ahead.

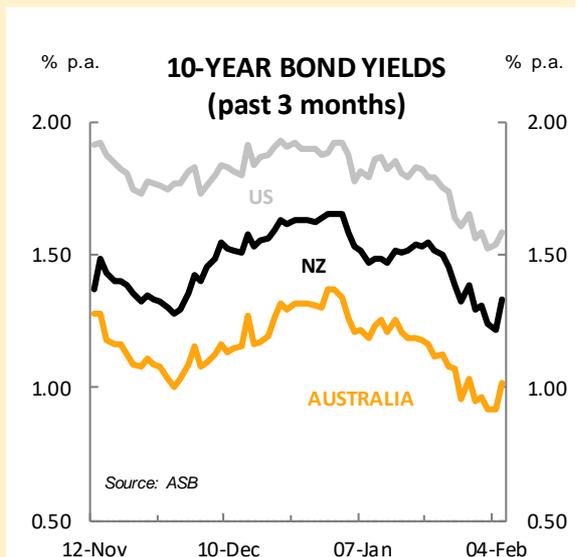
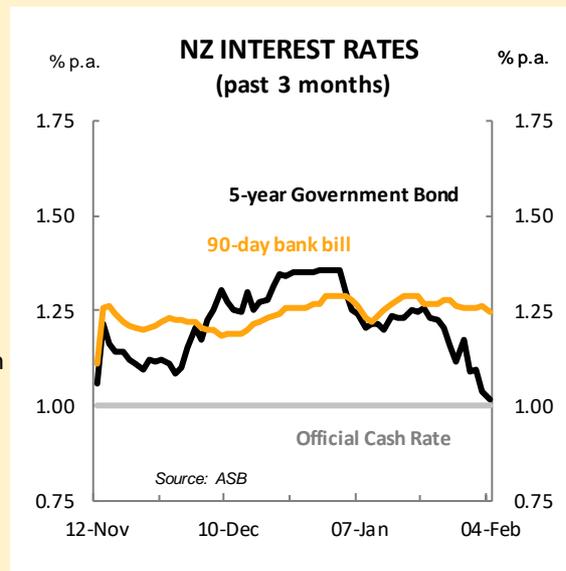
International Fixed Interest

Fears of a widespread economic slowdown due to the coronavirus helped drive global bond yields lower over January. As was widely expected, the Fed made no changes to the target rate settings at its 30 January meeting. The latest Committee members' forecasts showed that members expect to leave the Federal Funds Rate unchanged in 2020, and the same forecasts have just 25bp of hikes for 2021 and 2022.

Chair Powell continues to suggest that the hurdle for further interest rate cuts is high. The upshot is a period of weakness in the US economic data and/or a re-emergence of downside risks to the US or global economy will be needed for the FOMC to cut the Funds rate again. At this early stage, it is unclear if the coronavirus will morph into a major downside risk to the Chinese and in turn global economies.

US 10-year yields declined 30 basis points or 0.30% over the month, and at the time of writing are trading around 1.57% only 0.14% above the 2019 low of 1.43%.

European 10-year yields became more negative in Germany, the Netherlands and Switzerland. Yields lifted into positive territory (just) in France late last year but dipped back under zero in the January rally. Japanese yields remain negative, although the 10-year Japanese Government Bond was briefly above zero in late December/early January.



Growth Assets

Asset	Index	31-Jan-20 Level	Change			
			Month %	Quarter %	Year %	5-Year %
Equities	NZ - NZX50 Capital (NZ\$)	5021	2.0%	8.2%	26.0%	10.9%
	- NZX50 Gross (NZ\$)	11717	2.0%	8.6%	30.3%	15.3%
	AUS - All Ords (A\$)	7121	4.7%	5.1%	19.9%	5.1%
	All Ords in NZD	7383	4.2%	1.1%	18.3%	4.4%
	JAP - Nikkei (¥)	23205	-1.9%	1.2%	11.7%	5.6%
	UK - FT100 (£)	7286	-3.4%	0.5%	4.6%	1.5%
	US - S&P500 (US\$)	3226	-0.2%	6.2%	19.3%	10.1%
	WORLD - MSCI (US\$)	2342	-0.7%	4.9%	15.5%	6.9%

Australasian Equities

Australasian markets were positive in January. The New Zealand market pressed higher, with the NZX50 Gross index up 2% for the month. The Australian market started the year well, with the All Ords index breaking through 7,000 for the first time, and up 4.7% over the month.

Fletcher Building's share price recovery continued over January, with the stock gaining 9% over the month. Despite no fresh news on the future of the Tiwai Point smelter, Meridian energy's share price also recovered another 6.9% over January. The coronavirus is impacting activity already, with travel bans impacting visitor arrivals and trade. Auckland International Airport, Air New Zealand, Tourism Holdings and Port of Tauranga were all down over January.

Over January, 20 of Australia's 22 sub-industry sectors posted gains. Food & Staples Retailing remained under pressure, (down 3.3% on the back of December's 9.2% decline). In contrast, food and staples retailing was up 14.2% and pharmaceuticals & biotech was up 12.9% over the month.

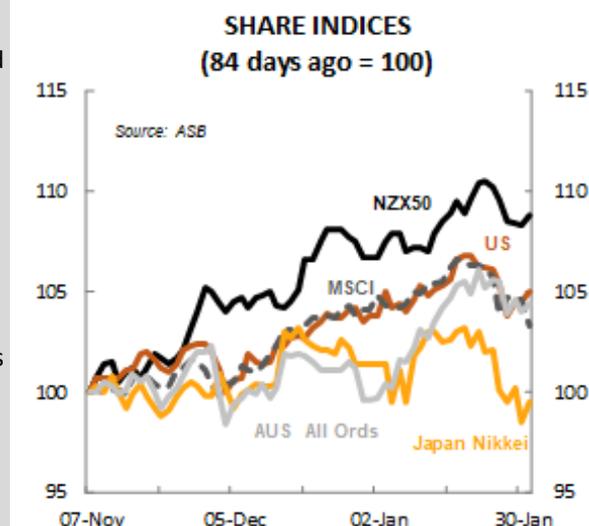
International Equities

Global sharemarkets were mixed in January. Over the month the US Dow Jones share index fell by 1.0% but the S&P 500 lost only 0.2% and the Nasdaq actually rose by 2.0%. In Europe, the German Dax index fell by 2.0%, and the UK FTSE lost 3.4%. In Asia, Japan's Nikkei lost 1.9%. In sum, the MSCI World Share index was down 0.7% in USD terms over the month.

US-Iran tensions and the US-China trade deal were opposing influences on sentiment in early January. As the geopolitical tensions eased over the middle of the month the US sharemarket hit fresh record highs, and the pan-European STOXX600 index of European shares also set a record high.

Sharemarkets softened over the later stages of the month as fears of the coronavirus dominated the news. Mining, energy, transportation and leisure stocks eased as investors downgraded short-term prospects for economic activity and travel, especially in China. In contrast, Apple and Amazon were well supported by investors after encouraging earnings results. At the time of writing the US earnings season is halfway complete and quarterly earnings for S&P500 companies are estimated to be up 2.3%.

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



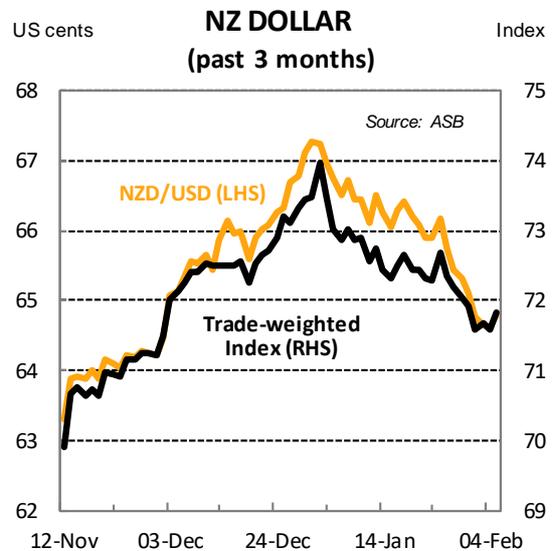
Exchange Rates:

The NZD finished 2019 on a strong note, but has eased through January as financial markets grapple with the implications of the coronavirus.

NZD/USD was trading around 0.6750 in late 2019, then eased around 3c all the way down to trade under 0.6450 in late January/early February. The AUD fared worse than NZD over the month, and as a result NZD/AUD rose 0.4%.

The NZD was down on all the other currencies monitored in this report, slipping 2.6% 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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