

Markets Monthly

16 July 2020

Mixed forces influence markets in June

By early June global sharemarket indices were well on the way to recovering from the sharp falls that occurred in March. Then on 11th June the major market indices dropped by 4 to 6.5% in a single day. Markets regained composure over the rest of the month, and pressed higher.

The US NASDAQ index of shares is back trading at an all-time high in July. Other markets are still recovering. The NZ market is around 5% shy of its February peak, while the UK and Australian markets are still 20% and 15% respectively off their highs.

Bond yields around the world remain extremely low, as central banks around the world continue to buy bonds.

The NZD continued to firm over June and was up 3.4% against the USD and 2.0% on a trade-weighted basis.

Date		30-Jun-20	Month %	Quarter %	Year %	5-Year %	
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-1.25	-3.00	
	NZ 90-day bank bill	0.31	0.05	-0.18	-1.34	-2.96	
Fixed	NZ 5-year gov't stock	0.43	0.06	-0.28	-0.82	-2.62	
Interest	NZ 10-year gov't	0.93	0.11	-0.15	-0.64	-2.69	
	NZ 10-year swap	0.74	0.00	-0.20	-1.94	-3.17	
	AUS 10-year gov't	0.89	-0.01	0.08	-0.43	-2.10	
	US 10-year gov't	0.63	-0.04	-0.07	-1.38	-1.69	
Australasian	NZ - NZX50 Capital (NZ\$)	4854	5.0%	16.6%	6.0%	66.5%	
	- NZX50 Gross (NZ\$)	11451	5.2%	16.9%	9.3%	99.9%	
Equities	AUS - All Ords (A\$)	6001	2.2%	17.4%	-10.4%	10.1%	
International	JAP - Nikkei (¥)	22288	1.9%	17.8%	4.8%	10.1%	
	Equities	UK - FT100 (£)	6170	1.5%	8.8%	-16.9%	-5.4%
		US - S&P500 (US\$)	3100	1.8%	20.0%	5.4%	50.3%
		WORLD - MSCI (US\$)	2202	2.5%	18.8%	1.1%	26.9%
		- MSCI return in NZD		-0.9%	11.3%	5.4%	34.6%
Exchange	NZD/USD	0.6421	3.4%	6.8%	-4.1%	-5.8%	
Rates	NZD/AUD	0.9327	-0.1%	-4.2%	-2.4%	5.2%	
	NZD/JPY	69.15	3.9%	6.1%	-4.1%	-17.0%	
	NZD/GBP	0.5217	3.8%	7.0%	-1.3%	20.5%	
	NZD/EUR	0.5713	2.2%	4.7%	-3.1%	-6.1%	
		NZ TWI	71.19	2.0%	3.5%	-2.5%	-0.1%

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](#).

Income Assets

Asset	Instrument	30-Jun-20 Yield (%)	Month	Quarter	Year	5-Year
			Yield Change			
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-1.25	-3.00
	NZ 90-day bank bill	0.31	0.05	-0.18	-1.34	-2.96
	US 90-day bank bill	0.30	-0.05	-1.14	-2.02	0.01
Fixed	NZ 5-year gov't stock	0.43	0.06	-0.28	-0.82	-2.62
Interest	NZ 10-year gov't	0.93	0.11	-0.15	-0.64	-2.69
	NZ 10-year swap	0.74	0.00	-0.20	-1.06	-3.17
	AUS 10-year gov't	0.89	-0.01	0.08	-0.43	-2.10
	US 10-year gov't	0.63	-0.04	-0.07	-1.38	-1.69

Cash

The Record of Meeting from the RBNZ Monetary Policy Committee in May reaffirmed earlier guidance that the OCR will remain at the current 0.25% setting until early-2021. At that same meeting Reserve Bank's Large-Scale Asset Purchases programme was expanded to buy up to \$60bn of NZ Government Bonds, Local Government Funding Agency (LGFA) Bonds and NZ Government Inflation-Indexed Bonds in the secondary market. The upshot of these actions is significant downward pressure on interest rates within the economy, including the return on cash via term deposits. Term deposits got trimmed in late May, and again in June. For amounts over \$10k, term deposit rates for 1-5 years are now between 1.60% and 1.7% (a decline of between 0.80% and 0.95% on where they were prior to the RBNZ's March cut).

Rates for shorter 3-month terms are now around 0.9%, and 4- to 12-month rates are between 1.0% and 1.6% (down by between 0.9% and 1.15% 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](#).**

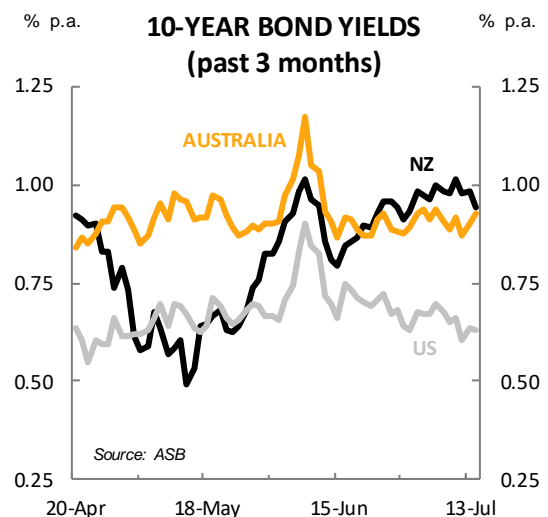
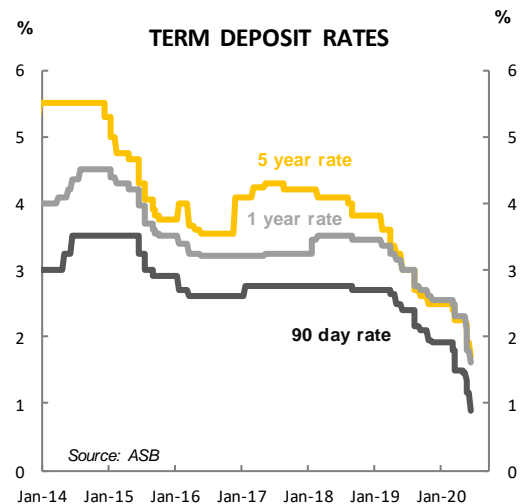
We regularly get asked about negative interest rates*. We discussed this last month and the comments are repeated as a footnote at the end of this document.

NZ Fixed Interest

Government bond yields ended June slightly higher, with the 5-year Government bond yield lifting 6bps to 0.43% and the 10-year government bond yield up 11 bps to 0.74%. That's still incredibly low, but 0.25% above the all-time low of 0.49% for the 10-year Government Bond yield set back on 13 May.

Bond yields rose early in the month and yields peaked on 8 June, a few days before sharemarkets had their big drop.

The 10-year yield got just above 1%, but subsequently eased lower to the month's low close of 0.80% on 15 June. By mid-July yields have risen modestly, and at the time of writing the NZ 10-year government bond is back trading with a yield around 1%.



International Fixed Interest

The world’s major central banks remain committed to ultra-loose policy settings, which is keeping global interest rates incredibly low. Volatility has reduced in the core fixed income markets, as central bank actions have dampened trading ranges.

The US 10-year Government bond yield dipped 4 basis points over the month to close June near 0.63%. Over the month this bond traded with a yield largely between 0.80% and 1.01%, the circa 21 basis point range contrasting to wider monthly ranges in April and May (circa 35-40 basis points), and March, where yields were anywhere between 0.8% and 1.8%.

Government bond yields are negative out to the 10-year tenor in some European economies and in Japan. US and UK 10-year Government Bond yields remain positive, albeit sub 1%, and not far off their respective record lows. We expect long-term 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	30-Jun-20 Level	Month %	Quarter %	Year %	5-Year %
			Change			
Equities	NZ - NZX50 Capital (NZ\$)	4854	5.0%	16.6%	6.0%	10.7%
	- NZX50 Gross (NZ\$)	11451	5.2%	16.9%	9.3%	14.9%
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	All Ords in NZD	6434	2.3%	22.6%	-8.2%	0.9%
	JAP - Nikkei (¥)	22288	1.9%	17.8%	4.8%	2.0%
	UK - FT100 (£)	6170	1.5%	8.8%	-16.9%	-1.1%
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	WORLD - MSCI (US\$)	2202	2.5%	18.8%	1.1%	4.9%

Australasian Equities

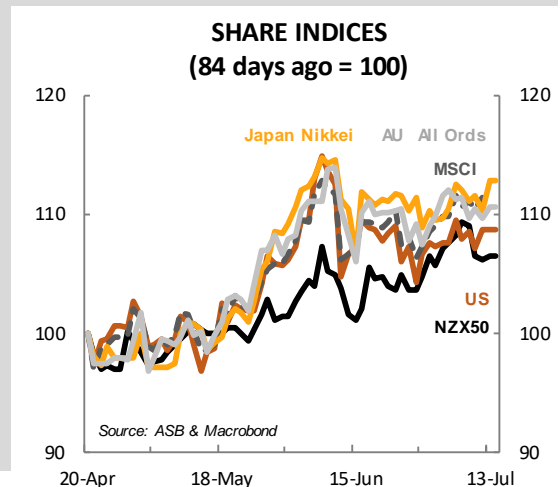
Australasian markets have continued to recover from the late March lows, with the NZX50 Gross index up 5.2%, and the All Ords index up 2.2% over June. Sharemarkets on both sides of the Tasman dipped in the wake of the big drops in the US and Europe on June 11th. However, the declines were modest (around 2%) compared with the larger declines elsewhere.

For the NZ market, the big news in early July was Rio Tinto’s announcement confirming the closure of the Tiwai Point NZ Aluminium Smelter (NZAS) in just over a year’s time, in August 2021. NZAS consumes as much as 13% of NZ electricity, so the closure will have a material impact on electricity demand. Accordingly, we saw weakness in NZ’s electricity “gentailers” in the wake of the announcement. It’s also a blow to Southland economy as the smelter is a significant employer in the region. The outcome was a surprise to markets.

Nonetheless, Australasian markets continue to recover from the March plunge, and at the time of writing, the NZ sharemarket is trading around 5% below its February peak, while the Australian market is around 17% off its highs, having been down 30% or more earlier in the year.

International Equities

Global sharemarkets have continued to recover from the lows reached on March 23. Over June the US Dow rose 1.7% and the S&P 500 rose 1.8%. The Nasdaq rose 6% in June, in doing so setting fresh record highs. In Asia, Japan’s Nikkei index rose 1.9%. In Europe, the UK’s FTSE rose 1.5% and the German Dax index was up



6.2%. Those gains over the month came despite the large dips that were recorded in the world’s major markets on 11 June, when market indices dropped as much as 6.5%. At the time of writing the NASDAQ index of US Shares is trading near its all-time highs set in early July. The S&P 500 index of US shares is just under 7% off its all-time high set back in February. The MSCI World share index is down 7% from its peak. Many markets were down 30-35% in late March.

Investors have reacted positively to the policy support from central banks and governments over the second quarter, 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. And the developments of the pandemic itself will continue to be challenging, particularly when areas have to return to lockdown, such as Victoria this month. If that’s not enough, the US-China tensions could easily re-emerge as 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.

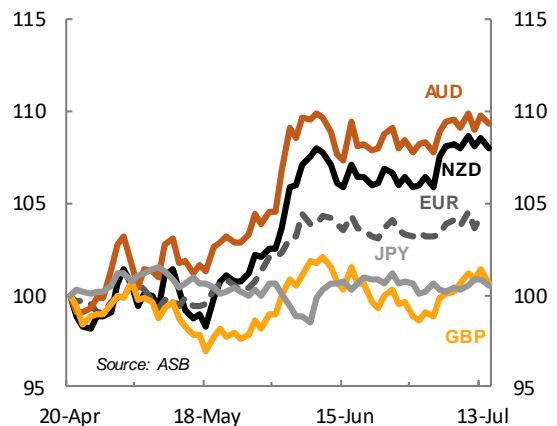
ASB Securities has more information on sharemarkets and trading [here](#).

Exchange Rates:

From a low point near 0.5600 USD in March, the NZD climbed nearly 10c to a peak just shy of 0.6600 USD in June. After making most of the big climb in April and May, the NZD spent the month trading in a narrower range between 0.6380 and 0.6550. The NZD is trading around the top of that range at the end of June and early July. Over the month the NZD lifted 3.4% against the USD and 2% on a trade-weighted basis. The biggest gain of the month came against JPY, with the cross rate gaining 3.95 to trade at ¥69.50. Strong gains were also made against the Pound, with NZD/GBP lifting 3.8% to trade near £0.5220. NZD/AUD was flat, with the pair ending the month trading around 0.9330.

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)**



*Negative interest rates – what’s that all about?

When we talk about negative interest rates, in New Zealand’s case we are generally talking about the Reserve Bank of New Zealand setting a negative Official Cash Rate (OCR). If the OCR was negative, financial institutions would be required to pay interest for depositing excess reserves with the RBNZ. Importantly, ASB isn’t forecasting a negative Official Cash Rate, and the Record of Meeting from the RBNZ Monetary Policy Committee in May reaffirmed earlier guidance that the OCR will remain at the current 0.25% setting until early 2021. However, the Committee noted that a negative OCR could become an option in the future, although at present financial institutions are not yet operationally ready. In other words, a negative OCR is a possibility next year, but we think other actions the RBNZ can take are likely to be more effective and timelier in terms of supporting the economy. It’s important to note that even if the RBNZ cuts the OCR further and sets a negative OCR, we don’t expect negative term deposit rates. But we would expect term deposit rates to be even lower than they are today.

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Data & Publication Manager

Nick Tuffley
Mark Smith
Jane Turner
Mike Jones
Chris Tennent-Brown
Judith Pinto

nick.tuffley@asb.co.nz
mark.smith4@asb.co.nz
jane.turner@asb.co.nz
mike.jones@asb.co.nz
chris.tennent-brown@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5657
(649) 301 5853
(649) 301 5661
(649) 301 5915
(649) 301 5660

www.asb.co.nz/economics

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