

# Markets Monthly

03 July 2019

## Bond yields fall and shares rally higher in June

- The RBNZ held the OCR at 1.5% at the June Review. We expect 25bp cuts in August and November.
- Global government bond yields continue to decline, led by the US. New Zealand 10-year yields set fresh lows.
- Global sharemarkets recovered from the May dip, with a number of indices setting new records.
- Australasian sharemarkets posted further gains over the month.
- The NZD lifted over the second half of the month, and was up 1.7% on a trade-weighted basis in June.

Date		30-Jun-19	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	1.50	0.00	-0.25	-0.25	-1.75
	NZ 90-day bank bill	1.64	-0.03	-0.21	-0.36	-1.99
Fixed Interest	NZ 5-year gov't stock	1.25	-0.14	-0.21	-0.90	-2.83
	NZ 10-year gov't	1.57	-0.15	-0.24	-1.29	-2.83
	AUS 10-year gov't	1.32	-0.15	-0.45	-1.33	-2.23
	US 10-year gov't	2.01	-0.17	-0.39	-0.85	-0.52
Australasian	NZ - NZX50 Capital (NZ\$)	4579	3.4%	6.1%	13.4%	66.8%
	- NZX50 Gross (NZ\$)	10480	3.6%	6.6%	17.2%	103.8%
Equities	AUS - All Ords (A\$)	6699	3.2%	7.0%	6.5%	24.5%
International Equities	JAP - Nikkei (¥)	21276	3.3%	0.3%	-4.6%	40.3%
	UK - FT100 (£)	7426	3.7%	2.0%	-2.8%	10.1%
	US - S&P500 (US\$)	2942	6.9%	3.8%	8.2%	50.1%
	WORLD - MSCI (US\$)	2178	6.5%	3.3%	4.3%	24.9%
	MSCI in NZD (NZ\$)	3252	3.5%	4.7%	5.5%	63.3%
Exchange Rates	NZD/USD	0.6698	2.9%	-1.3%	-1.2%	-23.5%
	NZD/AUD	0.9555	1.5%	-0.2%	4.2%	2.9%
	NZD/JPY	72.10	1.6%	-4.0%	-3.9%	-18.7%
	NZD/GBP	0.5286	2.4%	1.8%	2.3%	2.8%
	NZD/EUR	0.5894	0.8%	-2.4%	1.3%	-8.1%
	NZ TWI	73.05	1.7%	-0.8%	0.9%	-11.6%

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

June's global sharemarket gains were the mirror opposite of the prior month's slump. May was tough for investors, and the MSCI index of global shares was down 6.1% in USD terms, and 3.9% in NZD terms. In June, patient investors

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were rewarded as the global benchmark index lifted 6.5% in USD terms, and 3.5% in NZD terms. A key driver of the month's gains was growing expectations for coordinated interest rate cuts by global central banks. US-driven trade tensions continued, although there were some encouraging signs over the month.

In the US, the Dow Jones recorded its largest June gain since 1938. The broader S&P500 index posted its best June performance since 1955. Investor expectations for a more supportive US central bank increased after US Federal Reserve Chair, Jerome Powell, said early in the month that policymakers will *"act as appropriate to sustain the expansion"*. Powell is sending a clear signal that the Fed is open to cutting US interest rates. However, as a counterpunch to US President Trump's constant criticism, Powell also said the Fed is *"is insulated from short-term political pressures"*.

Concerns about global trade and broader global growth weighed on investor sentiment over May as trade tensions ratcheted up. Beyond the US-China tensions, in late May President Trump also threatened to impose tariffs on Mexican goods on 10 June unless Mexico stopped people from crossing illegally into the US. Sentiment improved in June when the Mexican situation was resolved (without much in the way of detail).

During the third week of June investors were encouraged by more 'dovish' commentary from both the US Federal Reserve and European Central Bank (ECB). ECB President Draghi noted that *"in the absence of improvement....additional stimulus will be required"*. And in the US, Chair Powell said *"The case for somewhat more accommodative policy has strengthened."* Both central banks could potentially cut interest rates as soon as July. US long-term yields have dipped as market participants become more and more convinced that we will soon see interest rate cuts by the US Federal Reserve.

The UK sharemarket managed to gain 3.7% over the month, despite the ongoing Brexit uncertainty. Two candidates, Jeremy Hunt and Boris Johnson, are vying for the Conservative Party leadership. The party vote will begin in early July, with the winner (and hence next UK Prime Minister) to be announced on July 22.

The focus returned to the US-China trade tensions at the end of the month, as world leaders including President Trump travelled to Japan for the G20 Summit. After an 80 minute meeting on the sidelines of the summit, President Trump and his Chinese counterpart Xi agreed to re-start trade talks. President Trump said the US will not impose new tariffs on US\$325 billion of imports from China for the time being.

The RBNZ cut the Official Cash Rate to a record low 1.5% in May, but remained on hold at the June Review. The current pricing of various interest rate instruments in Australia and New Zealand suggest both central banks will cut their policy rates again. The RBA cut the cash rate to 1% on 2 July, and is expected to cut rates again later this year. We believe the RBNZ will lower the Official Cash Rate by 25bps (to 1.25%) at their August Monetary Policy Statement (August 7), with a further 25bps cut to the OCR (1%) in the November MPS (November 13).

The NZD gained 1.7% on a trade-weighted basis over June, and posted gains against all of the major currencies we monitor. Those gains marked a reversal from the past month's weakness, although the NZD remains down on all the currencies we monitor except GBP over the past quarter.

## Income Assets

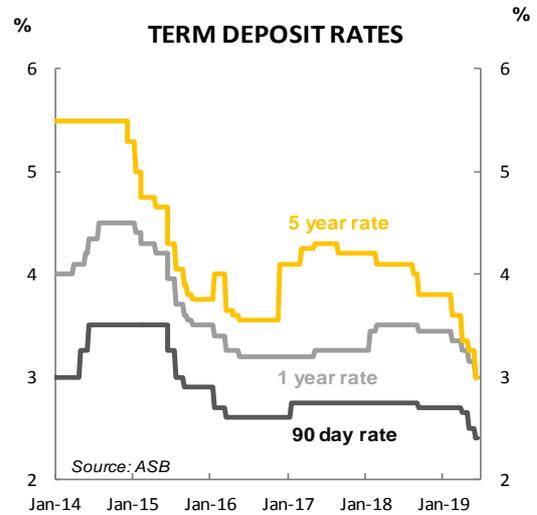
### Cash

The OCR was cut 0.25% to a record low 1.50% in May, and held at that level at the June Review. We have another 0.25% cut penciled into our economic forecasts for the RBNZ's 7 August meeting (1.25% OCR), and have penciled in a further 0.25% cut in November (1%). Term deposit rates dipped lower over June. Term deposit rates are now around the lowest they have been since the mid-1960s.

For amounts over the \$10k range, 5-year term deposits fell to a new low of 3.00% last month, shedding up to 0.25% off earlier levels. Other deposit interest rates were also trimmed. Wholesale interest rates and term deposit rates are almost flat across the curve too (i.e. long-term rates are only marginally higher than short-term rates). We now have a situation where the carded rate is the same for all term deposits from 1- to 5-year terms, in part a reflection of the lower-for-longer view on interest rates moving forward.

We expect term deposit interest rates to stay low, and the risk is they dip further if the RBNZ delivers further OCR interest rate cuts over the coming months.

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



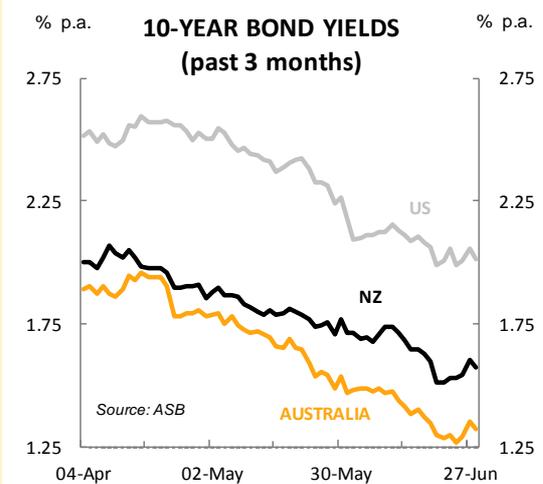
## NZ Fixed Interest

Government bond yields moved even lower over June. Yields on the NZ 10-year bond dropped 15bps over the month to 1.57%, and got down to a record low of 1.5% during June. The 5-year yield declined 14 bps, closing the month at 1.25%. The 10-year yield is down 0.90% on year-ago levels, and 2.83% below the yields recorded 5 years' ago. Dovish central bank signaling and persistently low inflation have been the key drivers pushing yields down. In May, the RBNZ cut the OCR by 25bps (1.50%), with the RBA having cut the cash rate by 25bps in both June (1.25%) and July (1.00%). We expect a further 50bps of OCR cuts (25bps in August and November), with the RBA to trim the cash rate by a further 25bps in November (0.75%). The expectation of a lower OCR, combined with the dovish sentiment from offshore central banks should maintain downward pressure on NZ fixed interest rates. Our view remains that interest rates will remain 'even lower for even longer', and we expect further falls over the year ahead.

## International Fixed Interest

More 'dovish' commentary from both the US Federal Reserve and European Central Bank (ECB) sent global yields lower over June. ECB President Draghi noted that "in the absence of improvement....additional stimulus will be required". And in the US, Chair Powell said "The case for somewhat more accommodative policy has strengthened." Both central banks could potentially cut interest rates as soon as July.

The 10-year US Treasury yield briefly dipped back below 2% for the first time since late 2016. Over the full June month 10-year yields declined 17 basis points (or 0.17%). Australian 10-year Government bond yields fell another 15 basis points to end the month at 1.32%.



Like NZ 10-year bonds, Australian 10-year Government bond yields are currently around record lows. In contrast, US 10-year Treasury yields are still close to 70bps higher than their July 2016 lows. But the downward pressure on global rates will likely continue while inflation remains low, the global outlook weakens and central banks maintain and eventually act on their easing biases.

European government bond yields remain extremely low. Ten year government bond yields are in negative territory in France, Germany, Switzerland and the Netherlands. UK 10-year gilt yields are trading around 0.8%, at levels last seen in 2016. Even Greek (2.26%) and Italian (1.9%) 10-year Government bond yields have pressed lower, despite their high public debt loads, weaker fiscal outlooks, and political issues.

## Growth Assets

### Australasian Equities

Australasian sharemarkets continued their strong run in June, with the NZX50 Gross index up 3.4%, and the Australian All Ords index up 1.2% over the month. Both indices are up significantly on a year ago, with respective gains of 17.2% and 6.5%. Total annual returns on the Australian market including dividends were circa 11%.

Within the New Zealand sharemarket, the strong run for electricity generator/retailer stocks continued. Mercury was the best-performing stock over the month, gaining nearly 20%. Meanwhile, a2 Milk and Fonterra were laggards in June. Fletcher Building also slid lower during the month.

In Australia, a key focus at the start of the month was the Reserve Bank of Australia (RBA). The RBA cut its cash rate on June 4 and again on 2 July to a record low 1.0%, and is widely expected to cut the cash rate even lower. The 4 June cut was the first RBA rate cut since August 2016 kicked-off a four day rally for Australian shares at the start of the month. Iron ore prices have been high because of supply concerns. China's iron ore port stockpiles fell sharply last month, continuing a trend that began in early April. Iron ore prices are now trading around the highest level in five years, boosting mining stocks during the month.

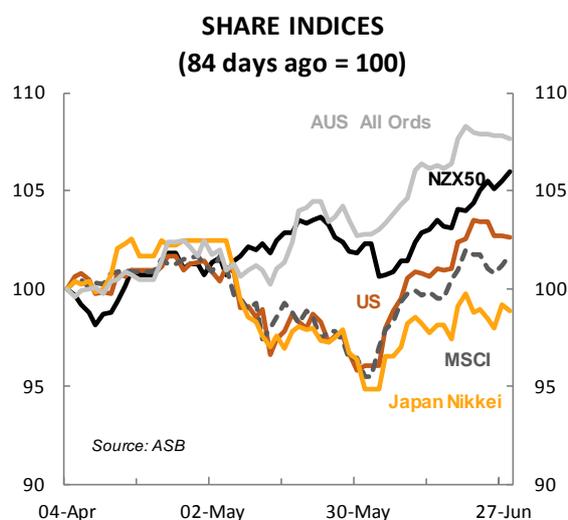
### International Equities

Global sharemarkets recovered in June, reversing the declines recorded in May. The US Dow Jones was up by 7.2%, the broader S&P 500 increased by 6.9% and the tech-heavy NASDAQ finished up by 7.4%. The Dow Jones recorded its biggest June gain since 1938, while the broader S&P500 index posted its best June performance since 1955 and the strongest first half-year return since 1997, gaining 17.4% over the year to date. In Europe, the German DAX rose by 5.7% and UK FTSE rose by 3.7%. And in Asia, Japan's Nikkei rose by 3.3%.

A key factor behind the month's gains is growing expectations of coordinated interest rate cuts by global central banks. US President Trump and Chinese President Xi Jinping announced a trade truce at the G20 Summit in Japan, but that didn't occur until the very end of the month. President Trump announced that he will hold off indefinitely on tariffs planned on US\$300 billion worth of Chinese exports to the US and said that he will allow US companies to do some business with Huawei Technologies. In return, Trump said that China will buy a large amount of agricultural goods.

Global equities are likely to remain pushed and pulled by trade developments and the "lower for longer" interest rate theme in global fixed interest markets for a while yet.

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

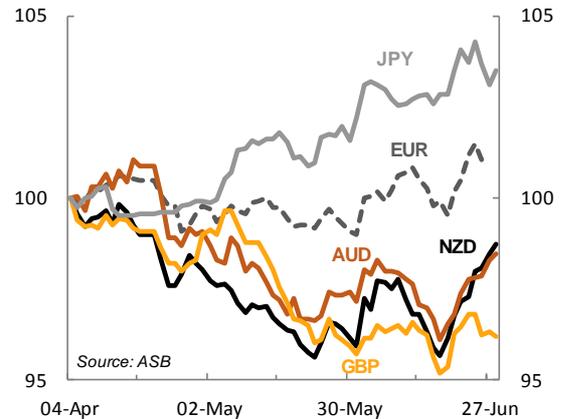


## Exchange Rates:

The NZD gained 1.7% on a trade-weighted basis over June, and posted gains against all of the major currencies we monitor. The NZD gained 2.9% versus the USD, 1.5% against the AUD, 1.6% against the yen, 2.4% against GBP and 0.8% versus the EUR. Those gains marked a reversal from the past month's weakness, although the NZD remains down on all the currencies we monitor except GBP over the past quarter.

The NZD declined 0.8% on a trade-weighted basis over the quarter to 30 June. The month's low of 0.6489 USD was set on the 16<sup>th</sup> June. But from mid-month the NZD made fairly steady gains against the greenback. The NZD/USD high of 0.6721 was recorded on the last trading day of the month.

**EXCHANGE RATE INDICES  
(versus USD, 84 days =100)**



More information about currencies is available in ASB's weekly economic report which can be [downloaded here](#).

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