

# Markets Monthly

02 October 2020

## Sharemarkets ease from record highs

Sharemarkets posted strong gains over August, only to give up some of those gains in September. NZ and US sharemarkets set fresh highs in late August/early September but retreated over the course of the month. The MSCI index of world shares was at a record high in early September but ended the month around 3.6% lower.

NZ Government bond yields eased even lower over September, and for the first time the yields on some bonds became negative. The RBNZ continues to buy government bonds and drive yields lower. Retail term deposit rates and mortgages declined during the month, which is a desired effect of the RBNZ's quantitative easing.

Central banks offshore are determined to keep interest rates low too and yields in the US and Australia declined during the month.

NZD was mixed, gaining against AUD & GBP, but down on the USD, JPY and EUR.

Date		30-Sep-20	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-0.75	-2.50
	NZ 90-day bank bill	0.31	0.02	0.00	-0.85	-2.54
Fixed	NZ 5-year gov't stock	0.02	-0.13	-0.41	-0.86	-2.68
Interest	NZ 10-year gov't	0.51	-0.13	-0.43	-0.58	-2.77
	AUS 10-year gov't	0.86	-0.13	-0.03	-0.11	-1.74
	US 10-year gov't	0.65	-0.08	0.02	-1.04	-1.42
Australasian	NZ - NZX50 Capital (NZ\$)	4937	-2.2%	1.7%	4.8%	76.5%
	- NZX50 Gross (NZ\$)	11747	-1.6%	2.6%	7.8%	109.9%
Equities	AUS - All Ords (A\$)	6009	-3.8%	0.1%	-11.6%	18.8%
International	JAP - Nikkei (¥)	23185	0.2%	4.0%	6.6%	33.3%
	Equities	UK - FT100 (£)	5866	-1.6%	-4.9%	-20.8%
	US - S&P500 (US\$)	3363	-3.9%	8.5%	13.0%	75.2%
	WORLD - MSCI (US\$)	2367	-3.6%	7.5%	8.6%	49.6%
	- MSCI return in NZD		-1.6%	4.8%	3.3%	44.8%
Exchange	NZD/USD	0.6585	-2.0%	2.6%	5.1%	3.3%
Rates	NZD/AUD	0.9255	1.2%	-0.8%	-0.2%	1.9%
	NZD/JPY	69.54	-2.1%	0.6%	2.8%	-8.9%
	NZD/GBP	0.5129	1.8%	-1.7%	0.6%	22.1%
	NZD/EUR	0.5613	-0.6%	-1.8%	-2.0%	-0.8%
	NZ TWI	71.25	-1.1%	0.1%	1.8%	2.6%

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

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](#).

## September highlights – what next for central banks?

Global sharemarkets posted strong gains in August and that continued into the first days of September. However, from their late August/early September peaks, markets slipped lower over the rest of the month. Sharemarket investors worried about the ongoing risks to the global economic recovery and fretted about the lack of progress on more aggressive fiscal or monetary stimulus, particularly in the US (but also elsewhere). The possibility of a second US fiscal stimulus package ahead of the 3<sup>rd</sup> November US election appears dim, the First Presidential Debate was shambolic, and the FOMC suggested during the month that an increase in the pace of bond purchases was not imminent. COVID outbreaks continue to cloud the outlook, particularly in Europe last month.

The RBNZ met during the month and maintained policy settings at the 23<sup>rd</sup> September announcement. However, the RBNZ's comments on the progress being made to deploy additional monetary instruments – namely a negative OCR setting and a funding facility for banks – suggest that a funding facility is imminent (more details in the cash section below). Local term deposit rates dipped in August and early September, with all terms now under 1.3%. Some mortgage rates also dipped over the month.

The RBNZ is just one of many central banks that has been on hold but has the “what next?” question hanging over its outlook. The Reserve Bank of Australia (RBA) didn't change the cash rate (Australia's equivalent of the RBNZ's OCR) in September, but the idea of a further reduction in the future gained some traction during the month. In late September, European Central Bank (ECB) President Lagarde reiterated that the ECB was ready to deploy more monetary stimulus to aid the recovery if needed. This follows signs of a split within the ECB, with some members citing very low inflation as justification for more monetary stimulus, whereas others argued that the outlook had not substantively changed, and risks may have receded. Dissent on the European Central Bank executive board is normal and healthy according to Lagarde. Meanwhile some have speculated the Bank of England will need to join the negative rates camp that the Europeans, Japanese and now Kiwis find themselves in. But recently BoE Deputy Governor Ramsden hosed down speculation of rate cuts, noting he saw the effective lower bound of the policy rate at 0.1% and did not believe the Bank would be implementing negative rates anytime soon. The FOMC kept monetary policy on hold (Fed funds target rate at 0% 0.25%). Fed Chair Powell questioned whether the US economy's faster-than-expected rebound will continue but stressed that more fiscal stimulus was needed to support the recovery.

The main theme in currency markets has been the weak USD, but the September jitters that saw sharemarkets ease also saw the USD garner some support. The JPY also benefited from the concerns. NZD eased against both over the month but gained on the AUD and a weak GBP.

## Income Assets

Asset	Instrument	30-Sep-20 Yield (%)	Month	Quarter	Year	5-Year
			Yield Change			
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-0.75	-2.50
	NZ 90-day bank bill	0.31	0.02	0.00	-0.85	-2.54
	US 90-day bank bill	0.23	-0.02	-0.07	-1.87	-0.10
Fixed	NZ 5-year gov't stock	0.02	-0.13	-0.41	-0.86	-2.68
Interest	NZ 10-year gov't	0.51	-0.13	-0.43	-0.58	-2.77
	NZ 10-year swap	0.63	0.00	-0.11	-0.58	-2.87
	AUS 10-year gov't	0.86	-0.13	-0.03	-0.11	-1.74
	US 10-year gov't	0.65	-0.08	0.02	-1.04	-1.42

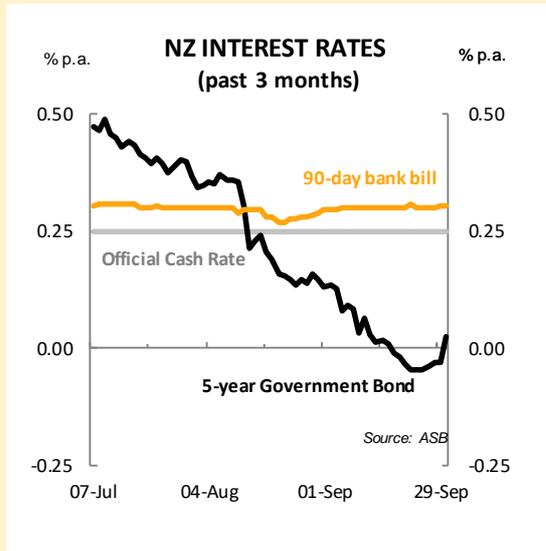
### Cash

At its September meeting, the RBNZ left the OCR at 0.25%, and maintained the \$100bn ceiling on its program to purchase Government bonds (having lifted it to that level at the August meeting). More information about our outlook for the RBNZ, its Government bond purchases, and negative interest rates can be [read here](#). Despite the RBNZ's “no change” message in September, after the meeting we were actually more convinced that retail interest rates will decline in the future. That's because of the RBNZ's comments on the progress being made to deploy additional monetary instruments – namely a negative OCR setting and a funding facility for banks. The RBNZ was explicit in noting that these alternative instruments could be deployed independently, rather than as a package of

measures. The RBNZ noted that a funding for lending program would be ready before the end of this calendar year, an explicit signal to banks to get things ready now. It seems the RBNZ has done a lot more thinking on policy implementation, including the sequencing of additional monetary instruments.

Term deposit interest rates continue to ease lower and were trimmed during August, and again in September. For amounts over \$10k, term deposit rates for 1-5 years are now between 1.15% and 1.2% (a decline of around 1.3% and 1.4% on where they were prior to the RBNZ's March cut). Rates for shorter, 3-month terms are now around 0.4%, and 4- to 12-month rates are between 0.4% and 1.2% (down around 1.4%-1.5% on the levels of early March). The next RBNZ OCR announcement is 11 November.

**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. You can read more in our [Term Deposit](#) report, and the latest ASB term deposit rates can be found [here](#).**



## NZ Fixed Interest

Although it is hard to believe, New Zealand has now joined countries like Japan, France and Germany with negative bond yields. The RBNZ's record low OCR setting and its subsequent "Large Scale Asset Purchase Programme" continue to drive key domestic fixed interest rates lower. In August, the RBNZ raised the cap on the asset purchase programme to \$100bn over the period to June 2022, and the Crown Indemnity on conventional NZ government bond purchases was lifted to 60%. The RBNZ also scaled up the amount of weekly asset purchases after the August meeting. No changes were made in September, but over the course of the month, the RBNZ's buying drove Government bond yields significantly lower. The 10-year yield closed as low as 0.46% during the month and yields on Government bonds out to the 5-year tenor became negative. Bank and corporate bond yields also remain very low in New Zealand at present, with many shorter-termed investment grade yields well below 1%.

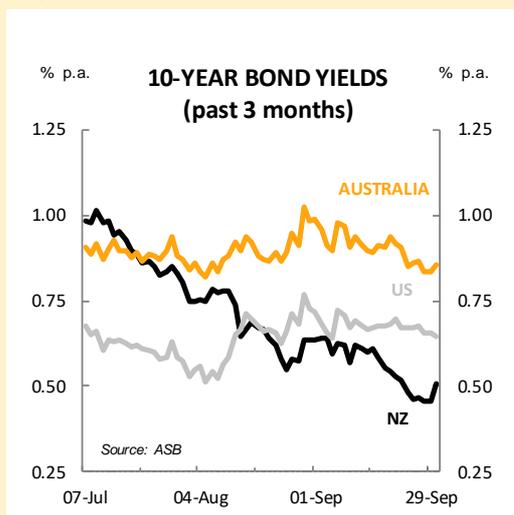
## International Fixed Interest

The jitters in global sharemarkets during the month supported bonds, and yields were down in both Australia and the US, having lifted the month prior.

The US 10-year yields are back around 0.65%, around the middle of the range over the past two months. (The 10-year yield set an all-time low on 4th August of 0.51%).

Australian 10-year yields declined by 13bps over the month, matching the NZ decline. However rates across the ditch remain above the NZ counterparts, reflecting the two central banks' different approach to quantitative easing, and the RBA's less enthusiastic stance on negative rates.

There wasn't too much change in European rates over the month. Government bond yields remain negative out to the 10-year tenor in France, Germany, Switzerland, the Netherlands and Sweden. 10-year bond yields trade slightly above zero in Japan. UK 10-year Government Bond yields remain positive (0.23% at the time of writing), and like the RBA, the Bank of England appears reluctant to push rates into negative territory.



## Outlook:

We continue to expect long-term investment grade 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. The decline in yields over the past year has boosted the value of bonds held within portfolios. But the low/negative interest rate environment is a significant constraint on the running yield of bond portfolios, and future returns.

## Growth Assets

Asset	Index	30-Sep-20 Level	Month %	Quarter % Change	Year %	5-Year %p.a.
Equities	NZ - NZX50 Capital (NZ\$)	4937	-2.2%	1.7%	4.8%	12.0%
	- NZX50 Gross (NZ\$)	11747	-1.6%	2.6%	7.8%	16.0%
	AUS - All Ords (A\$)	6009	-3.8%	0.1%	-11.6%	3.5%
	All Ords in NZD	6493	-4.9%	0.9%	-11.5%	3.1%
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	US - S&P500 (US\$)	3363	-3.9%	8.5%	13.0%	11.9%
	WORLD - MSCI (US\$)	2367	-3.6%	7.5%	8.6%	8.4%

### Australasian Equities

Australasian markets eased in September, with the NZX50 Gross index down 1.6%, and Australia's All Ords index down 3.8% over the month. The moves reversed the previous month's gains and left the Australian benchmark flat for the quarter, and down 11.5% on a year ago. In contrast, the NZ market was up 2.6% for the quarter, and up 7.8% for the year to 30 September.

At the time of writing, the NZ sharemarket is down 2% from its peak in late August, while the Australian market is still around 16% off its record highs, set back in February.

### International Equities

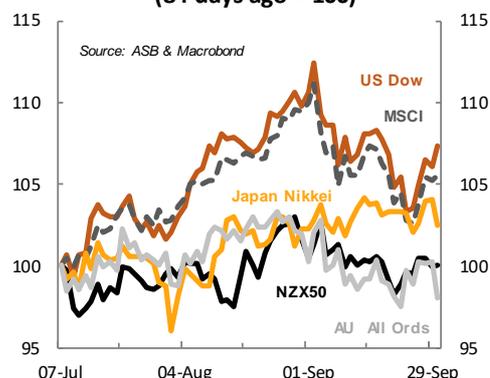
Global sharemarkets eased during the month. The MSCI index had set a record high on 2nd September, but at the time of writing is down around 5% from that peak. Over the September month the MSCI index of world shares declined 3.6% in USD terms. The tech-heavy NASDAQ has been the strongest performer since March but is now close to 8% off its record high set at the start of last month. The recent move may be the start of a rotation in markets away from growth stocks (including the so-called [FAANGs](#)) towards value and cyclical stocks.

Over September, the US Dow slipped by 2.3%, the S&P 500 was down 3.9%, and the NASDAQ declined 5.2%. That reversed part, but not all, of the very strong gains made in the prior month, and US shares were still up significantly for the third quarter.

In Asia, Japan's Nikkei index bucked the downtrend and was up 0.4% for the month, to be a solid 4% higher over Q3. In Europe, the UK's FTSE dipped 1.6% to be down 4.9% over Q3, while the German Dax index lost 1.4% having surged 5.5% in August.

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

SHARE INDICES  
(84 days ago = 100)



## Exchange Rates

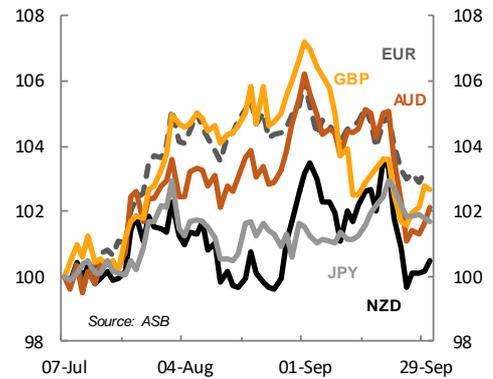
The main theme in currency markets over recent months has been the weak USD, but the September jitters that saw sharemarkets ease also saw the USD garner support. The JPY also benefited from the risk aversion in financial markets over the month.

NZD was mixed, gaining against AUD & GBP, but down on the USD, JPY and EUR.

In sum, the NZD was down 1.1% on a trade weighted basis over the month, and flat over the third quarter.

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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