Markets Monthly

12 May 2020

Sharemarkets claw back from March's plunge

Global sharemarkets plunged in late February and through most of March, as investors reacted to the spread of the COVID-19 coronavirus. Concern turned to panic by late March.

But by early May all the major global sharemarket indices we monitor have recovered significantly from their late March lows, reflecting confidence in the responses from governments and central banks. Nonetheless, indices are still down on the early 2020 highs.

Central bank action has also restored confidence and reduced volatility in bond markets. New Zealand, Australian and US 10-year Government Bond yields have all pressed lower again, after some turbulent weeks in March.

The USD softened over April, which helped NZD/USD lift, but the AUD outperformed, and NZD/AUD declined. Nonetheless, the NZD is down on year ago levels on all the major currencies monitored.

Date		30-Apr-20	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	0.25	0.00	-0.75	-1.50	-3.25
	NZ 90-day bank bill	0.27	-0.22	-0.99	-1.54	-3.37
	US 90-day bank bill	0.69	-0.75	-1.08	-1.89	0.41
	NZ - US 90-day bank bill	-0.42	0.53	0.09	0.35	-3.78
Fixed Interest	NZ 5-year gov't stock	0.32	-0.39	-0.78	-1.28	-2.82
	NZ 10-year gov't	0.73	-0.35	-0.58	-1.18	-2.70
	NZ 10-year swap	0.78	-0.15	-0.65	-1.89	-3.08
	AUS 10-year gov't	0.92	0.10	-0.05	-0.89	-1.75
	US 10-year gov't	0.61	-0.09	-0.97	-1.91	-1.41
Australasian Equities	NZ - NZX50 Capital (NZ$)	4474	7.5%	-10.9%	1.9%	50.4%
	NZ - NZX50 Capital (NZ$)	4474	7.5%	-10.9%	1.9%	50.4%
	- NZX50 Gross (NZ$)	10532	7.5%	-10.1%	5.1%	81.9%
	AUS - All Ords (A$)	5598	9.5%	-21.4%	-12.8%	-3.0%
	All Ords in NZD	5980	13.9%	-19.0%	-11.9%	-1.4%
International Equities	JAP - Nikkei (¥)	20194	6.7%	-13.0%	-9.3%	3.5%
	UK - FT100 (£)	5901	4.0%	-19.0%	-20.4%	-15.2%
	US - S&P500 (US$)	2912	12.7%	-9.7%	-1.1%	39.7%
	WORLD - MSCI (US$)	2053	10.8%	-12.4%	-5.8%	15.4%
	MSCI in NZD (NZ$)	3341	8.4%	-7.6%	2.2%	43.1%
Exchange Rates	NZD/USD	0.6144	2.2%	-5.1%	-7.8%	-19.3%
	NZD/AUD	0.9360	-3.8%	-3.0%	-1.0%	-1.7%
	NZD/JPY	65.45	0.4%	-7.3%	-11.9%	-27.5%
	NZD/GBP	0.4927	1.1%	-0.4%	-4.3%	-0.2%
	NZD/EUR	0.5656	3.7%	-3.7%	-5.0%	-17.5%
	NZ TWI	69.12	0.5%	-3.5%	-4.9%	-11.8%
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.]()

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Market News

It is hard to talk about anything in financial markets these days without thinking about the impact of COVID-19. Our primary concern is on the human impact of this pandemic, and ASB's support page is here. Our COVID-19 chart pack is also available, and monitors key economic trends for the NZ economy and key global trading partners as we navigate the COVID-19 pandemic. This report focuses on the recent developments in financial markets.

At the start of the year, a critical question for investors both here and abroad was "where to next" for interest rates. The late 2019 central bank pauses, and signs of stabilisation in the global outlook saw investors entertain the possibility that we could be close to the trough for the global interest rate cycle. As recently as 12 February, our own Reserve Bank also appeared very comfortable with its 1% Official Cash Rate setting, even though the news of the coronavirus in China was making headlines. The RBNZ was not alone in its thinking. Global investors were confident, and their collective positive sentiment regarding the global outlook helped send sharemarkets to all-time highs in February.

But from late February the situation changed drastically as the virus went from being a problem that appeared to be centred in a single region in China, to a global pandemic. The Reserve Bank of New Zealand and other central banks responded in March by slashing their respective policy rates to record low levels, and stepped into bond markets to provide liquidity and drive long-term yields lower.

Fixed interest yields have plunged lower, but it hasn't been a one-way street over the past two months. Bond markets here and abroad were extremely volatile in late March, with yields spiking higher on the stresses and strains plaguing financial markets. Central bank action eventually restored some calm. Through all the volatility, 10-year government bond yields in New Zealand, Australia and the US have all touched all-time lows after that March spike.

The NZD weakened as global growth concerns increased, but has recovered from its lows. Over April NZD/USD lifted 2.2%. The NZD also lifted on the other cross rates we monitor over April, except for the AUD. Nonetheless, the NZD is down significantly on year-ago levels vis-à-vis all the cross rates monitored within this report. This is a good development for exporters. Easier monetary conditions, courtesy of low interest rates and a weaker NZD will play a key role in buffering the economy and supporting an eventual recovery.

Income Assets

Asset	Instrument	30-Apr-20 Yield (%)	Month	Quarter	Year	5-Year
			Yield Change			
Cash	NZ Official Cash Rate	0.25	0.00	-0.75	-1.50	-3.25
	NZ 90-day bank bill	0.27	-0.22	-0.99	-1.54	-3.37
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Fixed	NZ 5-year gov't stock	0.32	-0.39	-0.78	-1.28	-2.82
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Cash

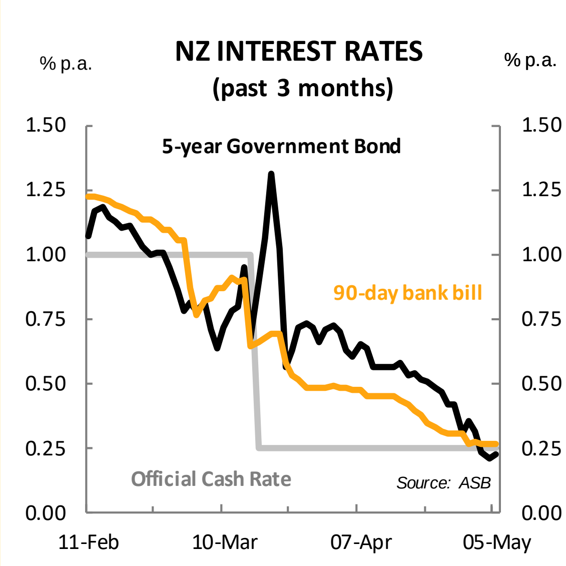
At its 12 February meeting the RBNZ looked comfortable with the OCR on hold at 1%. At the time the RBNZ commented the COVID-19 (coronavirus) outbreak was "an emerging downside risk" to the economic outlook. The RBNZ wasn't alone in this thinking, and other central bank had also been reluctant to respond to the risk. But as the situation worsened and COVID-19 rapidly spread to other regions, central banks swung into action here and abroad. The RBNZ cut the Official Cash Rate to 0.25% in March (before its scheduled meeting), in response to the escalation of COVID-19. The RBNZ also announced an asset purchase programme to buy NZ government bonds. The OCR is expected to stay at 0.25% over the year ahead, and the expected returns from NZ cash investments are very low.

Term deposit interest rates have dipped since the RBNZ's rate cut, but not by the full extent of the RBNZ's 0.75% move. For amounts over $10k, term deposit rates for 2-5 years are around 2.25% (a decline of 0.25% on where they were prior to the RBNZ's March cut). Rates for shorter 3-month terms are now around 1.45%, and 4- to 12-month rates are between 1.7% and 2.30% (also down over the past month, but by much smaller amounts than the RBNZ's March cut). Nonetheless, we think the risk for savers is that term deposit rates remain low for an extended period (years) and could press even lower over the year ahead.

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

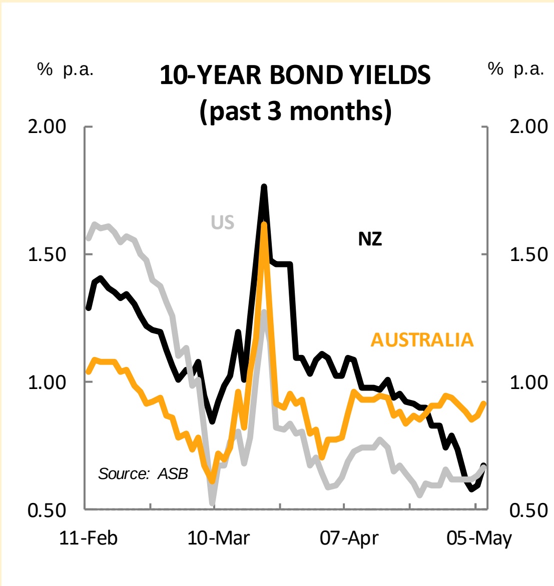
NZ Fixed Interest

Government bond yields have plunged lower this year, but it hasn't been a one-way street. Bond markets here and abroad were extremely volatile in late March, with yields spiking higher on the stresses and strains plaguing financial markets globally. Central bank action eventually restored some calm. Through all the volatility, 10-year government bond yields in New Zealand, Australia and the US have all touched all-time lows during recent months.



The most significant development in the local bond market came on March 23, coinciding with the day of peak stress in financial markets, and the low in sharemarkets. On this day the RBNZ announced its Quantitative Easing programme, unveiling a large $30bn "Large Scale Asset Purchase Programme" of NZ Government bonds for the subsequent 12 months. The package is front-loaded and is now providing considerable support to NZ interest rate markets, dampening yields.

The RBNZ kept its options open, signaling purchases will be made across a range of maturities and that the programme could be stepped up beyond that if needed. On 7 April the RBNZ added $3 billion of Local Government Funding Agency (LGFA) debt to its programme of asset purchases. This represents approximately 30% of the total LGFA debt on issue. We expect the RBNZ to make ongoing adjustments over the coming months. Indeed, a key focus of the 13 May RBNZ meeting will be by how much the Monetary Policy Committee (MPC) decides to lift its quantitative easing (QE) programme. We believe the size of the programme could be lifted to $60b. The desired result of the RBNZ's asset purchases is low long-term interest rates, and this is important for the economy at a time when the government is massively stepping up its bond issuance.



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. On 3 March the Fed announced an emergency intra-meeting interest rate cut, reducing the Federal Funds rate by 50bp to a range of 1.00% 1.25%. Then on 15 March the Fed delivered another 100bp cut, taking the Federal funds rate to a 0-0.25% range. Additional support for the economy was provided by the FOMC's open ended programs to purchase Treasuries and mortgage backed securities. The Fed introduced several lending and liquidity programs. The upshot of all this is a significant reduction of strain in financial markets compared with late March.

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. One development we have seen over the past six weeks is a significant lift in yield on Greek and Italian bonds after both rallied to very low levels earlier in the year. The Greek and Italian 10-year yields are now trading around 2.1% and 1.9% respectively, having both dipped below 1% prior to the March flare up in financial markets.

Growth Assets

Asset	Index	30-Apr-20 Level	Month %	Quarter %	Year %	5-Year %
			Change			
Equities	NZ - NZX50 Capital (NZ$)	4474	7.5%	-10.9%	1.9%	8.5%
	- NZX50 Gross (NZ$)	10532	7.5%	-10.1%	5.1%	12.7%
	AUS - All Ords (A$)	5598	9.5%	-21.4%	-12.8%	-0.6%
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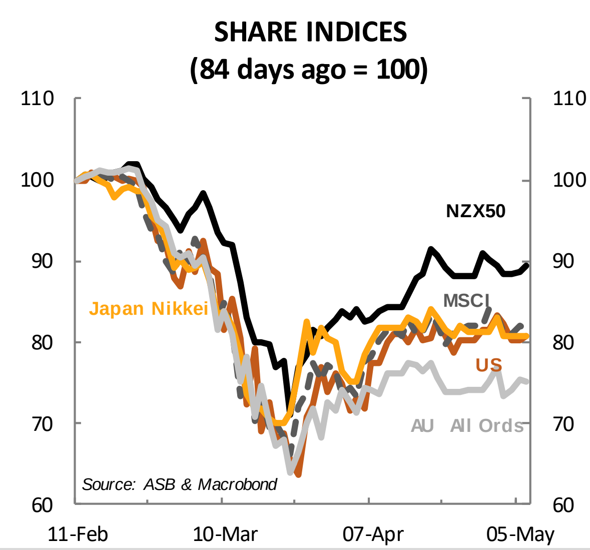
	US - S&P500 (US$)	2912	12.7%	-9.7%	-1.1%	6.9%
	WORLD - MSCI (US$)	2053	10.8%	-12.4%	-5.8%	2.9%

Australasian Equities

Australasian markets have lifted significantly off the late March lows, with the NZX50 Gross index up 7.5%, and the All Ords index up 9.5% over April. The All Ordinaries posted the biggest gain in 32 years. Both market indices had set record highs during February, before the coronavirus fears sent sharemarkets lower. At the time of writing the NZ sharemarket is trading around 10% off the February peak, while the Australian market is still over 20% off its highs.

The sharemarket recovery to date has been in response to the policies from both governments and central banks. Interest rates on both sides of the Tasman have been slashed and both Governments have committed to do as much as possible to support people and the economy. But the tough data is just starting to flow in, and it won't make good reading over the coming months. For example, our estimates suggest NZ economic activity is running at about 80% of pre-COVID levels during alert level 3, and this will rise to around 90% at Alert Level 2. Capturing how tough the lockdown has been on some businesses, NZ retail electronic card spending plunged a record 46.8% in April. NZ hospitality sales fell a particularly savage 94.8%. Pent up demand means we can expect a modest rebound in coming months but any return to "normal" remains a long way off.



International Equities

Global sharemarkets rebounded in April from the lows reached on March 23. Sentiment has been boosted by the unprecedented monetary and fiscal stimulus announced in late March and April.

Overall in April the US Dow Jones rose by 11.1%, recording its best month in 33 years. The S&P 500 lifted 12.7% which was its biggest one month gain since 1987, and the Nasdaq was up by 15.5%. Despite the lift, all three US indices remain below their record highs. The NASDAQ is closest to a full recovery and is only 6% below the peak at the time of writing.

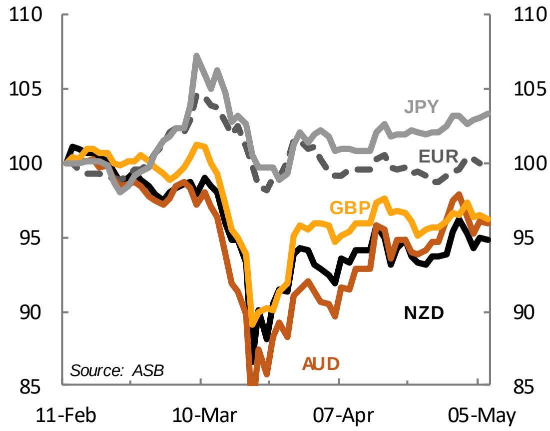
European shares had a strong month, with the German DAX index up 9.3% and the UK FTSE index up 4.0%. In Asia, Japan's Nikkei index lifted 6.7%.

Although the recovery over the past six weeks has been encouraging, we expect that volatility will continue while the markets grapple with the uncertainties of the coronavirus impact. Investors have reacted positively to the policy support from central banks and governments. Now they must face several months' worth of data which will capture the impact of the shutdowns around the world.

ASB Securities has more information on sharemarkets and trading here.

Exchange Rates:

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



The NZD lifted over April against all the currencies monitored, except for the AUD. NZD was supported over the month by improved financial market conditions.

NZD briefly fell to its month low of 0.5844 on 3 April after dovish comments from RBNZ officials. Both RBNZ Governor Adrian Orr, and Deputy Governor Christian Hawkesby, said that the RBNZ could increase stimulus further, including extending bond purchases to include Local Government Funding Authority (LGFA) debt. NZD/USD hit its month high of 0.6176 on the final day of April, and has traded between this level and 0.6000 over May.

NZD/AUD eased 3.8% over April, as the AUD surged over 5% on a trade weighted basis. Improving financial market sentiment, early signs of a recovery in Chinese economic activity and slower RBA bond purchases all underpinned the AUD.

More information about currencies is available in ASB's weekly economic report which can be downloaded here.

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