

# Markets Monthly

## A sigh of relief sweeps through markets

- Local share prices rallied along with global equities as anxiety diminished.
- We enter a wait and see period now: have global banks and central banks done enough?
- Meanwhile NZ short-term interest rates and the NZ dollar have adopted a slight downward bias.

March was a month of global anxiety. April saw a collective sigh of relief. The concerns mainly revolve around the banking industry and the wider net of financial intermediaries. Numerous estimates of eventual loan losses to be written off abound, both of US subprime loans and global loans in general, with the IMF adding their estimate of US\$945 billion to the fray early April (along with a forecast of a US recession). Meanwhile the financial institutions are in the midst of reporting estimated losses to date, a process that is revealing large write-offs. But, also, there is the policy response unfolding. Central banks have shown a resolve to provide support to the major institutions through an adjustment phase. The global banks themselves are seeking new capital. Many had come to believe by late April that the adjustment is working and that the worse of the crisis is now behind us. As a result risky assets such as shares and risky trades such as the NZD/JPY carry trade came back into vogue. The gold price retreated sharply.

Supportive of a general reduction in anxiety was the corporate and economic news that emerged during April. Non-financial corporates have experienced a check to their earnings growth but generally profits (or losses) for the March quarter were no worse than feared. Likewise news of March quarter GDP growth in the US, rather than contraction, came as a welcome relief.

However the global shock has been huge. There is likely to be more woeful stories emerge over the next few months, in the US and elsewhere. The global credit tightening to date is one factor to impact; there is also the influence of very high oil prices to be felt. This backdrop suggests more volatility to come in the next few months, in particular for share prices where a quick earnings rebound has been anticipated.

Meanwhile there was a stream of local news that pointed to a slowing local growth rate, especially within the housing market. This news did provide a slight downward bias to interest rates and the NZ dollar but an inflation rate of 3.4% p.a. has the Reserve Bank of New Zealand reticent to ease for several months yet.

| Date     | Instrument               | 30-Apr-08 | Month % | Quarter % | Year % | 5-Year % | 5-year %p.a. |
|----------|--------------------------|-----------|---------|-----------|--------|----------|--------------|
| Cash     | NZ cash rate             | 8.25      | 0.00    | 0.00      | 0.50   | 2.75     | 8.25         |
|          | NZ 90-day bank bill      | 8.86      | -0.05   | 0.13      | 0.79   | 3.35     | 8.86         |
|          | US 90-day bank bill      | 2.87      | 0.18    | -0.37     | -2.48  | 1.57     | 2.87         |
|          | NZ - US 90-day bank bill | 5.99      | -0.23   | 0.50      | 3.27   | 1.78     | 5.99         |
| Fixed    | NZ 5-year gov't stock    | 6.70      | 0.19    | -0.10     | -0.07  | 1.33     | 6.70         |
| Interest | NZ 10-year gov't         | 6.57      | 0.14    | 0.30      | 0.45   | 0.67     | 6.57         |
|          | NZ 10-year swap          | 7.53      | -0.11   | -0.01     | 0.14   | 1.22     | 7.53         |
|          | AUS 10-year gov't        | 6.29      | 0.19    | 0.25      | 0.39   | 1.01     | 6.29         |
|          | US 10-year gov't         | 3.82      | 0.37    | 0.21      | -0.80  | -0.02    | 3.82         |
| Equities | NZ - NZX50 (NZ\$)        | 2641      | 4.2%    | -3.0%     | -17.8% | 31.2%    | 5.6%         |
|          | AUS - All Ords (A\$)     | 5657      | 4.6%    | -0.7%     | -8.1%  | 90.4%    | 13.7%        |
|          | JAP - Nikkei (¥)         | 13850     | 10.6%   | 1.9%      | -20.4% | 76.9%    | 12.1%        |
|          | UK - FT100 (£)           | 6087      | 6.8%    | 3.5%      | -5.6%  | 55.1%    | 9.2%         |
|          | US - S&P500 (US\$)       | 1386      | 4.8%    | 0.5%      | -6.5%  | 51.1%    | 8.6%         |
|          | WORLD - MSCI (US\$)      | 1509      | 5.0%    | 2.9%      | -4.4%  | 85.5%    | 13.2%        |
|          | MSCI in NZD (NZ\$)       | 1945      | 8.9%    | 3.6%      | -9.0%  | 33.8%    | 6.0%         |
| Exchange | NZD/USD                  | 0.776     | -3.6%   | -0.7%     | 5.1%   | 38.6%    | 6.8%         |
|          | Rates                    | NZD/AUD   | 0.831   | -4.9%     | -5.4%  | -6.9%    | -7.6%        |
|          | NZD/JPY                  | 80.7      | -0.1%   | -2.9%     | -8.5%  | 20.6%    | 3.8%         |
|          | NZD/GBP                  | 0.394     | -1.6%   | 0.2%      | 6.7%   | 12.5%    | 2.4%         |
|          | NZD/EUR                  | 0.498     | -2.3%   | -5.4%     | -7.9%  | -1.1%    | -0.2%        |
|          | NZ TWI                   | 0.694     | -2.7%   | -3.1%     | -2.9%  | 14.2%    | 2.7%         |
|          | EUR/USD                  | 1.558     | -1.4%   | 5.0%      | 14.2%  | 40.2%    | 7.0%         |

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

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### General Advice Warning

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### Cash

- Short-term interest rates remain high but did decline slightly over April, hinting at lower short-term interest rates to come but probably only in a gradual fashion.
- The Reserve Bank retained the 8.25% p.a. Official Cash Rate at the late April Review but did appear to soften its stance with its dropping of the word “significant” when referring to “a time yet” before the OCR is changed again.
- Market pricing shows expectations now centre on the first easing being late 2008.
- There was also a shift of sentiment in global money markets. The premium for credit risk generally declined and greater liquidity was evident in the global money markets. Nonetheless there still exists a large liquidity premium built into rates.

### Fixed interest

- Local fixed interest rates were mixed, tending to rise early in the month and declining towards the end. The 10-year government stock yield finished the month higher than at the start but shorter-term fixed rates were lower – slightly – over the month.
- The earlier upward pressure largely came from offshore influences, including higher US bond yields. A general unwinding of risk-aversion saw international investors sell high-rated international bonds in favour of equities and more risky bonds and financial assets.
- The lower yields towards the end of the month again were largely the result of international forces, this time lower yields in Australia as the odds increased of RBA rate cuts next year.
- The overall trend remains broadly sideways.

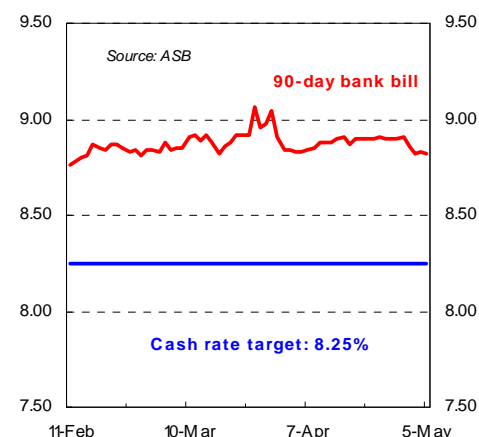
### Equities

- New Zealand share prices increased in line with a global recovery in share prices, albeit with some volatility towards the start of the month.
- There were lower earnings announced for various companies' March quarter results around the world but results generally were no worse than feared. In fact around 75% of US companies so far have either matched or beaten earnings expectations.
- A number of New Zealand companies experienced double-digit percentage gains over the month including Contact, Mainfreight, Rakon and Vector.
- Nonetheless most local share prices remain well down for the year to date, especially export companies.

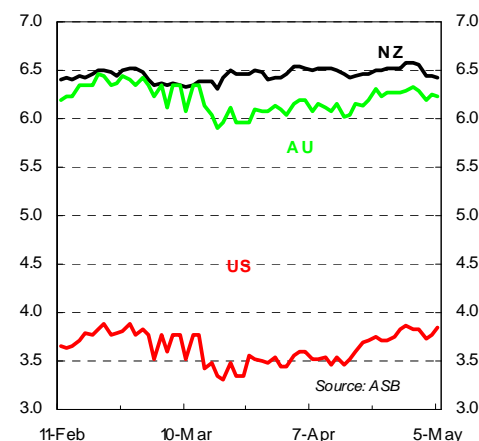
### Exchange rates

- The US dollar bottomed out against the euro in April, following a similar turn against the Yen in March.
- The NZD/USD weakened accordingly.
- The NZ dollar was also more generally lower over the month, showing in the accompanying graph as the NZD not tracking with the stronger AUD and EUR early in April as closely as usual and as the late month drop against the USD.
- Ongoing news of slower NZ growth is the major factor weighing on the NZ dollar, especially when set beside the still fast-growing Australian economy.
- However the high level of the NZ dollar against the likes of the USD, JPY and GBP shows high domestic interest rates are still of appeal to offshore investors.

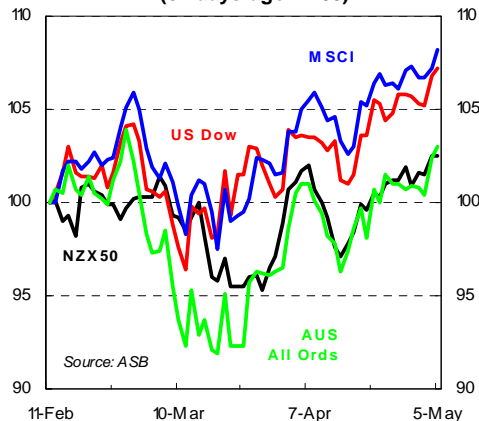
% p.a. **NZ SHORT-TERM RATES**



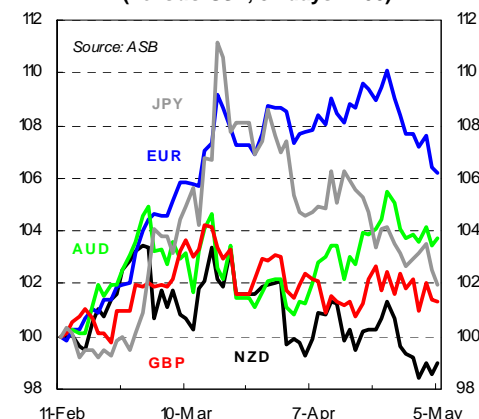
% p.a. **10-YEAR BOND YIELDS**



**SHARE INDICES**  
(84 days ago = 100)



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



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