

# Markets Monthly

## Difficult conditions continue into 2009

- The US sharemarket recorded the worst January on record with the S&P 500 losing 8.6%.
- US 10-year Government Bond yields lift a massive 0.76% over the month.
- The NZD lost ground on all the major crosses, dropping 8.6% on a trade weighted basis.

The Christmas lull continued over the first week of January with equity markets trending higher on light volumes. The first week in January saw the Dow Jones gain almost 6%, closing above the 9,000 points mark for the first time since early November. However the perception that the New Year would herald a fresh beginning for equity markets soon died away. Weak data, including US unemployment hitting a 16-year high of 7.2%, soon sent market sentiment back to where it was in late 2008. Equity markets continued to weaken as traders started factoring in a longer and more protracted US recession. The rout on equity markets continued despite more rate cuts from central banks around the globe. The Bank of England cut rates to the lowest levels recorded in its two hundred year history, citing the "unusually sharp and synchronised downturn" would lead to a further slowdown in the UK economy. Not helping matters was the poor US profit reporting season. The Dow and FTSE fell more than 12 per cent from their early January highs in a two-week period. Locally, the sharemarket largely followed the global mood, although in contrast to offshore markets, posted a positive return for the month. The continued speculation of IMF downgrades to global growth did not help equity markets. However once the IMF actually released the revised growth forecasts, shares managed to post mild gains into the end of the month. Over January, the NZ market actually gained 2%, while the Australian All Ords shed 5%. The US markets recorded the worst January on record with the S&P 500 losing 8.6%. News of a potential downgrade to New Zealand foreign currency sovereign debt rating and sharp revisions to the IMF's global growth forecasts (including downward revisions to New Zealand's trading partners' growth for 2009) were instrumental in the NZD's trading over the month. The NZD lost ground on all the main crosses, particularly the USD and JPY. Another big development in January was in the US bond market, where the yield on 10-year Government bonds rose dramatically. The main impetus for the move is concern over the degree of fiscal and monetary stimulus being applied to lift the US economy out of recession. The concern caused the US bond market to sell off, as investors were swamped with record issuance.

Date	Instrument	31-Jan-09	Month %	Quarter %	Year %	5-Year %
Cash	NZ cash rate	3.50	-1.50	-3.00	-4.75	-1.75
	NZ 90-day bank bill	3.66	-1.45	-3.48	-5.07	-1.89
	US 90-day bank bill	1.17	-0.27	-2.02	-2.07	0.08
	NZ - US 90-day bank bill	2.49	-1.19	-1.46	-3.00	-1.97
Fixed Interest	NZ 5-year gov't stock	3.70	-0.57	-2.16	-3.10	-2.24
	NZ 10-year gov't	4.35	-0.30	-1.72	-1.92	-1.71
	NZ 10-year swap	4.52	-0.47	-2.02	-3.02	-2.15
	AUS 10-year gov't	4.10	0.11	-1.11	-1.94	-1.73
	US 10-year gov't	2.83	0.76	-1.11	-0.78	-1.31
Equities	NZ - NZX50 (NZ\$)	1945	2.1%	-2.7%	-28.6%	-21.3%
	AUS - All Ords (A\$)	3478	-5.0%	-12.7%	-38.9%	5.9%
	JAP - Nikkei (¥)	7994	-9.8%	-6.8%	-41.2%	-25.9%
	UK - FT100 (£)	4150	-6.4%	-5.2%	-29.4%	-5.5%
	US - S&P500 (US\$)	826	-8.6%	-14.7%	-40.1%	-27.0%
	WORLD - MSCI (US\$)	839	-8.8%	-12.4%	-42.8%	-20.3%
	MSCI in NZD (NZ\$)	1650	3.6%	1.3%	-12.1%	4.9%
Exchange Rates	NZD/USD	0.508	-12.0%	-13.5%	-34.9%	-24.0%
	NZD/AUD	0.790	-5.5%	-9.5%	-10.1%	-9.9%
	NZD/JPY	45.4	-13.0%	-21.7%	-45.3%	-36.0%
	NZD/GBP	0.358	-10.7%	-0.3%	-9.1%	-2.8%
	NZD/EUR	0.394	-4.0%	-13.9%	-25.1%	-26.9%
	NZ TWI	0.514	-8.6%	-13.2%	-28.3%	-22.6%
	EUR/USD	1.290	-8.3%	0.5%	-13.1%	3.9%

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

As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

### Cash

- The Reserve Bank of New Zealand (RBNZ) cut the Official Cash Rate by 0.25% in July, 0.5% in September, 1% in October, and 1.5% in December 2008. The aggressive moves continued on January 29th, with the RBNZ delivering another 1.5% cut, taking the OCR to 3.5%.
- 90-day bank bill yields declined in January, reflecting the expectation of further cuts from the Reserve Bank. Term deposit rates dropped after the RBNZ rate cut.
- Financial markets and our own forecasts are predicting more easing of the Official Cash Rate in coming months, although the size of any future cuts will likely be smaller.
- RBNZ's next interest rate announcement is on 12 March.

### Fixed interest

- As investors have sought the ultimate safety of bonds backed by governments, yields plummeted.
- US 10-year yields collapsed to 2.05% in late 2008 as the abysmal economic news outweighed any inflation fears or bond supply concerns resulting from the bail-outs and growth in budget deficits. The yield on this note had never gone below 3% in its 46-year history until November. NZ and AUS rates also reached multi-decade lows in the last few months.
- However, since mid January, some reassessment of the huge issuance that will be required is weighing on the US market, and yields have risen dramatically off the record lows.
- Government yields are still well below long-term averages and NZ yields were down in January, despite the big lift in the US.

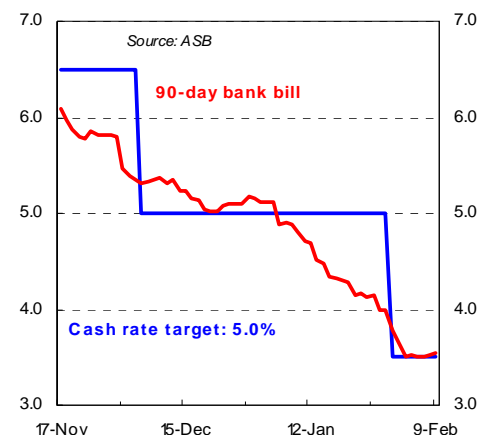
### Equities

- The NZ market was influenced by the global mood, although in contrast to offshore markets, posted a positive January return.
- Weak economic news and the continued speculation of International Monetary Fund downgrades to global growth forecasts did not help equity markets. However once the IMF actually released the revised growth forecasts, markets managed to post mild gains into the end of the month. Confirmation that the US Congress had passed the US \$819 billion stimulus plan also buoyed markets.
- Over January, the NZ market actually gained 2.1%, whilst offshore the main markets we monitor were in the red. The Australian All Ords index shed 5%. The US markets recorded the worst January on record with the S&P 500 losing 8.6%. Japan's Nikkei fell by 9.8%, the UK FTSE lost 6.4% and German Dax gave back 9.8%.

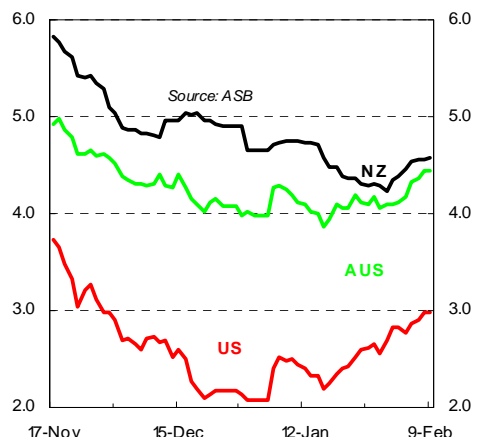
### Exchange rates

- The NZD has weakened significantly against the major currencies in recent months.
- News of the potential rating downgrades to New Zealand and sharp revisions to the IMF's global growth forecasts (including downward revisions to New Zealand's trading partners' growth for 2009) were instrumental in the NZD's trading over January.
- The NZD lost ground on all the main crosses, but particularly the USD and JPY, which have lifted over recent months from multi-year lows reached in 2008.
- On a trade-weighted basis the NZD dropped 8.6% over the month, and is down 28% on year-ago levels.

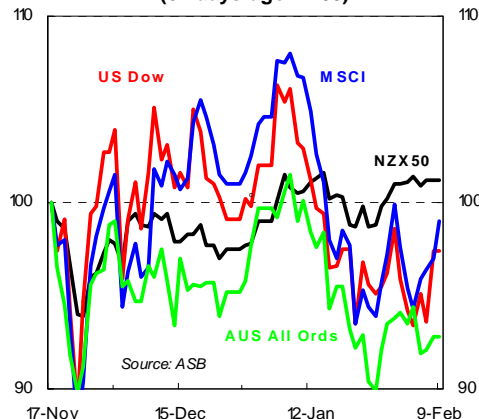
% p.a. **NZ SHORT-TERM RATES**



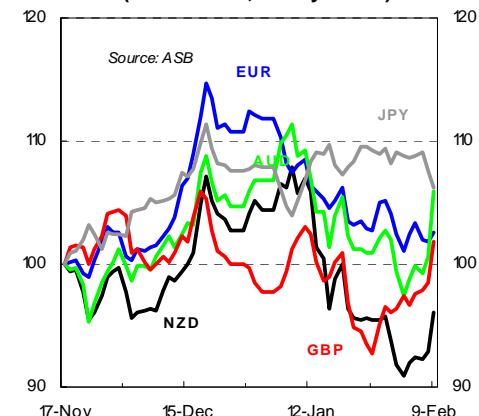
% p.a. **10-YEAR BOND YIELDS**



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



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



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