

Shares, bond yields and NZD all lift in March

- Sharemarkets around the world posted gains in March, as investor appetite for risk returned.
- Government bond yields continue to rise, despite the efforts of central banks.
- NZD was surprisingly strong, rising 12% against the USD and 10% on a trade-weighted basis.

In early March, the gloomy feeling from preceding months looked set to continue. There were few signs of improvement in the global economy, investor sentiment remained negative and global sharemarkets continued to fall. But on March 10 Citigroup surprised by indicating it operated at a profit in the first two months of the year. Other banks followed with similar comments and investors embraced the positive news. Economic news in the US was also more encouraging with housing starts, home sales and durable good orders all posting gains in February. On March 18 investors were further encouraged by the latest attempt at “quantitative easing” by the Federal Reserve – that is, the decision to buy longer-term securities. On March 23 investors cheered even louder when the US Government outlined its plan to buy “toxic” assets. The US Dow Jones soared almost 500 points on the day or almost 7%. By March 26 the Dow Jones had recovered 21% from the March 9 lows, suggesting – technically at least – a bull market phase had developed. There was a bout of profit-taking late in the month and share-markets lost further ground when the US Government rejected restructuring plans by auto-makers. But overall it was a far more positive month for equity investors, causing some analysts to question whether markets had bottomed. The Dow Jones rose by 7.7% over March – the best monthly gain in 6½ years. Local shares did not lift in the dramatic fashion of offshore markets, but were positive nonetheless.

On March 12th the RBNZ cut the Official Cash Rate 0.5% and sent a strong signal it is very close to the end of the easing cycle. The RBNZ forecasts suggested a terminal cash rate of 2.5%, which was higher than markets had been previously expecting. The change of expectations caused longer-term rates to increase. Increases in mortgage rates from the lows seen earlier in 2009 increased demand to fix mortgages in March, boosting the upward move in interest rates. The RBNZ issued a statement on 1 April challenging the market’s move and perceptions of households. RBNZ aimed to arrest the massive lift in wholesale (swap) yields, and calm a fairly frantic rush from borrowers to fix their mortgages. NZ Government bond yields moved dramatically higher during March, leaping 0.76% to yield 5.27% by month end. The New Zealand dollar (NZD) had a surprisingly strong month, rising 12% against the USD and 10% in trade-weighted terms. The major shift for the NZD came from the pared-back expectations for future RBNZ rate cuts. New Zealand still maintains an interest rate advantage over many other countries, and that combined with an improved investor appetite for risk, helped support the NZD on all the cross rates in the month.

Date	Instrument	31-Mar-09	Month %	Quarter %	Year %	5-Year %
Cash	NZ cash rate	3.00	-0.50	-2.00	-5.25	-2.25
	NZ 90-day bank bill	3.33	0.14	-1.78	-5.58	-2.18
	US 90-day bank bill	1.21	-0.05	-0.23	-1.48	0.09
	NZ - US 90-day bank bill	2.12	0.19	-1.55	-4.10	-2.27
Fixed Interest	NZ 5-year gov't stock	4.46	0.59	0.19	-2.05	-1.16
	NZ 10-year gov't	5.27	0.76	0.62	-1.16	-0.56
	NZ 10-year swap	5.78	0.92	0.79	-1.86	-0.59
	AUS 10-year gov't	4.66	0.30	0.67	-1.45	-0.85
	US 10-year gov't	2.74	-0.25	0.67	-0.70	-1.10
Equities	NZ - NZX50 (NZ\$)	1780	0.7%	-6.5%	-29.8%	-31.4%
	AUS - All Ords (A\$)	3532	7.1%	-3.5%	-34.7%	3.4%
	JAP - Nikkei (¥)	8110	7.1%	-8.5%	-35.3%	-30.8%
	UK - FT100 (£)	3926	2.5%	-11.5%	-31.1%	-10.5%
	US - S&P500 (US\$)	798	8.5%	-11.7%	-39.7%	-29.2%
	WORLD - MSCI (US\$)	805	7.2%	-12.5%	-44.0%	-24.0%
	MSCI in NZD (NZ\$)	1417	-4.6%	-11.0%	-20.7%	-11.5%
Exchange Rates	NZD/USD	0.568	12.4%	-1.7%	-29.4%	-14.1%
	NZD/AUD	0.825	5.4%	-1.2%	-5.5%	-5.3%
	NZD/JPY	55.9	13.3%	7.0%	-30.4%	-19.0%
	NZD/GBP	0.397	12.1%	-0.9%	-0.9%	10.1%
	NZD/EUR	0.429	7.9%	4.4%	-15.8%	-20.7%
	NZ TWI	0.571	9.8%	1.4%	-20.0%	-13.2%
	EUR/USD	1.325	4.2%	-5.8%	-16.1%	8.3%

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

- RBNZ cut the Official Cash Rate by 50bp on 12 March. The OCR has now been cut from 8.25% in June 2008 to 3% today.
- The RBNZ is now sending a strong signal that it is slowing down the pace of cuts, and is reasonably reluctant to cut by too much more, and indicated a 2.5% terminal cash rate is likely.
- 90-day bank bill yields rose during the month, as financial markets pared back expectations of further RBNZ cuts.
- We expect a 0.5% cut on 30 April. Financial markets have fully priced a 0.25% cut from the RBNZ at the next meeting, and a 2.5% official cash rate by mid-year.
- The RBNZ is projecting interest rates to remain at relatively low levels for an extended period.

Fixed interest

- The paring back of rate cut expectations caused longer-term interest rates to increase. Increases in mortgage rates from the lows seen earlier in 2009 increased demand to fix mortgages in March, boosting the upward move in interest rates.
- In addition, there has been upward pressure on bond yields globally as markets anticipate a large increase in the supply of bond issuance from both corporates and governments. The RBNZ issued a statement on 1 April challenging the market's move and perceptions of households.
- RBNZ aimed to arrest the massive lift in wholesale (swap) yields, and calm a frantic rush from borrowers to fix their mortgages. The result was a dip in interest rates towards the end of the month, although pressure has seen rates lift off the lows in early April. NZ Government bond yields moved dramatically higher during March, leaping 0.76% to yield 5.27% by month end.

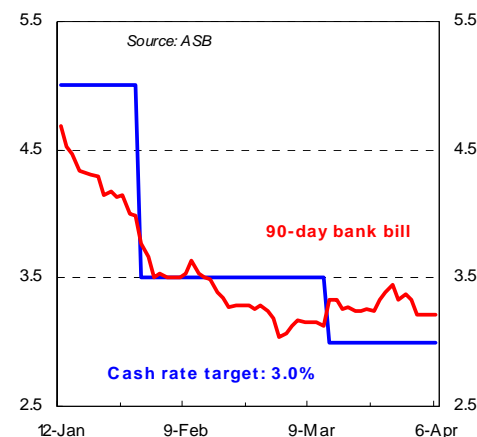
Equities

- Sentiment was poor in early March. There were few signs of improvement in the global economy, investor sentiment remained negative and global share-markets continued to fall. The Dow Jones lost over 7% in the first six trading days.
- Citigroup surprised the market by indicating that it had made a profit in the first two months of the year. Other banks followed with similar comments and investors embraced the positive news. On March 23 the US Dow Jones soared almost 7% on the day after the US Government outlined its plan to buy "toxic" assets. There was a bout of profit-taking in late March and sharemarkets lost further ground when the US Government rejected restructuring plans by auto-makers.
- The New Zealand market was up for the month, but the gain was modest compared to the gains on offshore markets monitored.

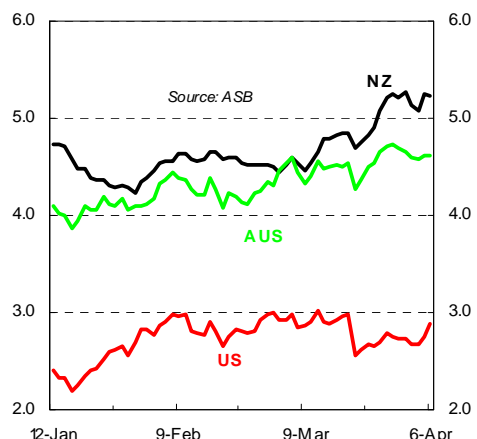
Exchange rates

- The New Zealand dollar (NZD) had a surprisingly strong month, rising 12% against the USD and 10% in trade-weighted terms. The major shift for the NZD came from the pared-back expectations for future RBNZ rate cuts.
- New Zealand still maintains an interest rate advantage over many other countries and that, combined with an improved investor appetite for risk, helped support the NZD on all the cross rates monitored during the month.
- NZD/AUD gained 3.2% over the month despite growing expectations for both sets of interest rates to be at or near their cyclical lows. This stems from the perception that, since the New Zealand economy was one of the first to enter into recession, in turn the economy could be the first out.

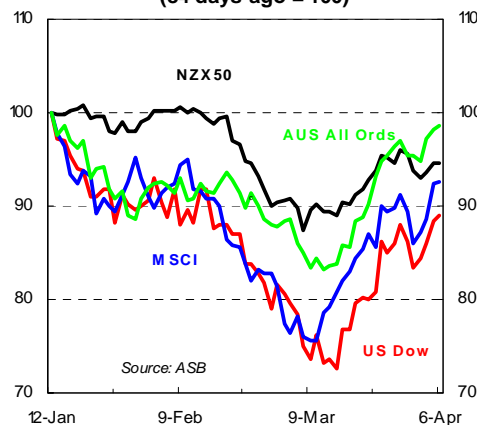
% p.a. **NZ SHORT-TERM RATES**



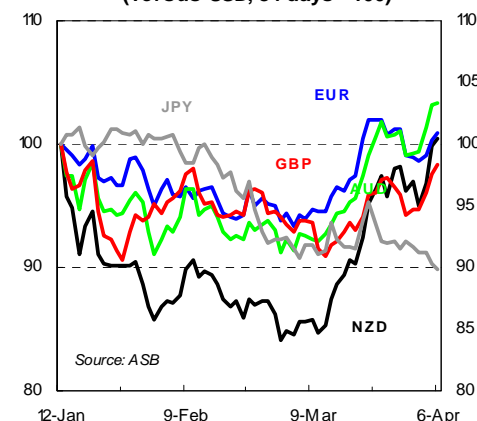
% p.a. **10-YEAR BOND YIELDS**



SHARE INDICES
(84 days ago = 100)



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



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