

Sharemarket rally continues through April

- Sharemarkets around the world posted gains in April, building on the March rally.
- Government bond yields continue to rise, despite the efforts of central banks.
- NZD eased 2% on a trade-weighted basis, giving up some of the strong gains made in March.

The early part of April saw global authorities revise their economic growth estimates lower. The World Bank expected the global economy to shrink by 0.6% in 2009 before growing 2.3% in 2010. The OECD expects an average contraction of 4.3% across the 30-member countries in the group this year.

Equity markets shrugged off the pessimistic growth forecasts and focused more on other tentative signs that the pace of deterioration in the global economy was subsiding. The first two weeks of April saw indices continue in a similar manner to the way they closed March – extending the rally to six consecutive weeks. The US Dow gained 24% in the six-week period while the ASX 200 managed an equally impressive 20%. In contrast, the NZ market only lifted 2.5% during the six-week global rally. Tentative signs of an improvement in the global economy are helping investor sentiment pick up around the globe. Economic news in the US was encouraging with housing starts, home sales, manufacturing indices and durable good orders all posting gains in April reports. Chain store sales, jobless claims and US house prices and the inventory of homes on the market for sale all showed initial signs of stabilisation during the month, adding to the positive sentiment. On the negative side, the advanced reading of US GDP for the March quarter was weak. The growth figure was dragged down by a record drawdown in business inventories and a collapse in exports. Equity markets weathered the initial scare with swine flu to rally into the close of the month with the S&P 500 lifting 9.4% – marking the best result monthly gain in nine years. The Australian All Ords index also rose by 6%, resulting in the best back-to-back monthly gains in 15 years. The NZ market lifted 5.7% in April, and in early May the gains continued, putting the market in positive territory for the calendar year to date.

On 30 April the RBNZ delivered another 50bp cut. The RBNZ said it expects “to keep the OCR at or below the current level through until the latter part of 2010. The upward drift in long-term bond yields continued in April. There has been upward pressure on long-term yields here and abroad as markets anticipate a large increase in the supply of bond issuance from both corporates and governments. The New Zealand dollar remains well off its 2009 lows, but did ease 2% on a trade weighted basis over the month.

| Date | Instrument | 30-Apr-09 | Month % | Quarter % | Year % | 5-Year % |
|----------------|--------------------------|-----------|---------|-----------|--------|----------|
| Cash | NZ cash rate | 2.50 | -0.50 | -1.00 | -5.75 | -3.00 |
| | NZ 90-day bank bill | 2.85 | -0.48 | -0.81 | -6.01 | -2.92 |
| | US 90-day bank bill | 1.03 | -0.18 | -0.14 | -1.85 | -0.12 |
| | NZ - US 90-day bank bill | 1.82 | -0.30 | -0.67 | -4.16 | -2.80 |
| Fixed Interest | NZ 5-year gov't stock | 4.25 | -0.21 | 0.55 | -2.45 | -1.78 |
| | NZ 10-year gov't | 5.33 | 0.06 | 0.98 | -1.24 | -0.89 |
| | NZ 10-year swap | 5.37 | -0.41 | 0.85 | -2.16 | -1.39 |
| | AUS 10-year gov't | 4.75 | 0.09 | 0.66 | -1.54 | -1.20 |
| | US 10-year gov't | 3.09 | 0.35 | 0.26 | -0.73 | -1.42 |
| Equities | NZ - NZX50 (NZ\$) | 1881 | 5.7% | -3.3% | -28.8% | -28.5% |
| | AUS - All Ords (A\$) | 3745 | 6.0% | 7.7% | -33.8% | 9.9% |
| | JAP - Nikkei (¥) | 8828 | 8.9% | 10.4% | -36.3% | -24.9% |
| | UK - FT100 (£) | 4244 | 8.1% | 2.3% | -30.3% | -5.5% |
| | US - S&P500 (US\$) | 873 | 9.4% | 5.7% | -37.0% | -21.2% |
| | WORLD - MSCI (US\$) | 893 | 10.9% | 6.5% | -40.8% | -13.8% |
| | MSCI in NZD (NZ\$) | 1580 | 11.5% | -4.2% | -18.7% | -5.0% |
| Exchange Rates | NZD/USD | 0.565 | -0.5% | 11.2% | -27.2% | -9.2% |
| | NZD/AUD | 0.779 | -5.6% | -1.3% | -6.2% | -9.8% |
| | NZD/JPY | 55.0 | -1.5% | 21.2% | -31.8% | -19.7% |
| | NZD/GBP | 0.382 | -3.8% | 6.7% | -3.2% | 8.9% |
| | NZD/EUR | 0.426 | -0.7% | 8.0% | -14.6% | -18.2% |
| | NZ TWI | 0.559 | -2.0% | 8.7% | -19.5% | -12.0% |
| | EUR/USD | 1.328 | 0.2% | 2.9% | -14.8% | 11.0% |

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

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

- In March the RBNZ cut the Official Cash Rate by 50bp and sent a strong signal it was reasonably reluctant to cut by too much more, indicating a 2.5% terminal cash rate looked likely.
- On 30 April, the tone softened and the RBNZ delivered another 50bp cut. The RBNZ said it expects “to keep the OCR at or below the current level through until the latter part of 2010. The OCR could still move modestly lower over the coming quarters.”
- 90-day bank bill yields eased during the month, reflecting the RBNZ action, and the potential for modest future OCR cuts.
- We expect the RBNZ will cut further, with the easing cycle taking the OCR down to 2%. However, any further cuts will be heavily dependant on events over the next few months.

Fixed interest

- The upward drift in government bond yields continued in April. 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.
- NZ 10-year Government Bond yields moved dramatically higher during March, leaping 0.76% to yield 5.27% by month end. Over April the movement was a far more modest 0.06% lift.
- The US Fed announced it will purchase \$300bn of US Treasury securities and more agency debt (\$1.25 trillion target for year-end) on March 18. This caused a massive 47bp drop in the US 10-year yield on the day. Over the month of April the record amount of bonds flooding the market (US\$101bn issued in the last week alone), compounded with further gains in risk assets (equities especially) lead to a sell-off in bonds. The 10-year note closed the month in the US at the highest yields since November.

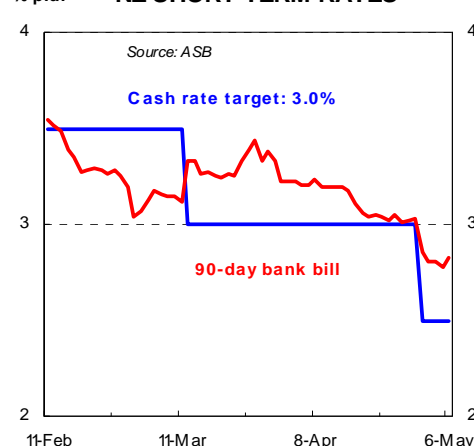
Equities

- Equity markets shrugged off negative news, swine flu, and weak growth forecasts and focused more on the tentative signs that pace of deterioration in the global economy was subsiding.
- The rally in markets was staged around the continued tentative signs of an improvement in the global economy. The improved risk appetite was boosted by better-than-expected results in the US earnings season.
- Equity markets closed the month with the S&P 500 lifting 9.4% – marking the best result monthly gain in nine years. The Australian All Ords index also rose by 6%, resulting in the best back-to-back monthly gains in 15 years. The NZ market lifted 5.7% in April. In early May the gains continued, putting the local market in positive territory for the calendar year to date.

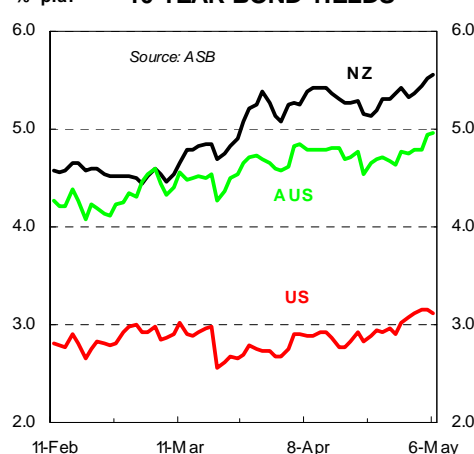
Exchange rates

- The New Zealand dollar (NZD) had a mixed performance over the month, weighed down particularly heavily against the CAD and the AUD. The NZD peaked early in the month as equity markets began the month on a strong note.
- The New Zealand dollar remains well off its 2009 lows, but did ease 2% on a trade-weighted basis over the month.
- NZD weakened over the month against the AUD as the likelihood that New Zealand interest rates would fall below Australia’s fed through.
- Indeed, the delivery of this shift in cash interest rate differentials provided a strong boost to AUD, with the NZD dipping to a 10-month low against the AUD 0.773 on 30 April, in the wake of the RBNZ rate cut.

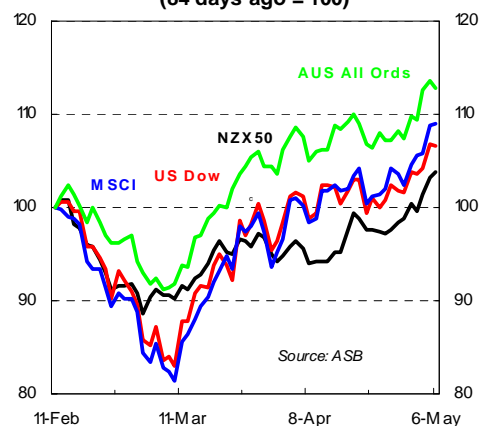
% p.a. **NZ SHORT-TERM RATES**



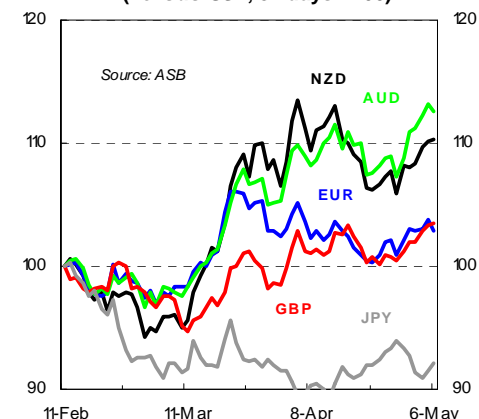
% p.a. **10-YEAR BOND YIELDS**



SHARE INDICES
(84 days ago = 100)



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



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