

# Markets Monthly

## Sharemarkets and bonds rally in August.

- Sharemarkets around the world rallied and posted strong returns in August.
- US bond yields fell over the month, as some investors questioned the economic recovery.
- NZD posted gains on the major currencies during August, lifting 3% on a trade-weighted basis.

Global equity markets rallied sharply over the early part of August in response to better-than-expected economic data. The considerable improvement in manufacturing activity across the globe was the main highlight for investors. The surprisingly good result for US non-farm payrolls (which registered the smallest decline since August 2008) on August 7<sup>th</sup> and the approval by the US Senate of additional funding of US\$2 billion for the “cash for clunkers” scheme provided further momentum for equity markets.

Global equity markets gave back some gains in the middle part of August as profit taking became a theme. Concerns that Chinese authorities may curb investment lending added to the weakness. Trading volumes through the latter part of August were light with the peak period for the US summer vacation resulting in traders taking holidays.

The Chinese stock market has become a major focus recently. The Shanghai index fell 22% over the month, as Chinese banks cut back on lending and the Chinese Government studied options for limiting investment into sectors which were overheating, such as steel and cement.

Global bond yields fell noticeably during the month. The falls were attributable to shudders sent through equity markets as China’s bourse fell, and a number of foreign central bank speakers (including the US Federal Reserve’s Ben Bernanke and the ECB’s Jean-Claude Trichet) cooling down expectations for rate hikes.

Overall, equity markets posted strong gains in August. The US Dow Jones rose by 3.5% for the month – marking its best August performance since 2000. The broader S&P 500 gained 3.4%. Meanwhile, the Australian All Ords index rallied over the month, marking the sixth consecutive monthly gain, up by 5.5%. The gains over past six months have been the strongest in 22 years. The NZ market posted a more modest 2.4% return over August, and is up over 10% for the year.

The New Zealand dollar (NZD) experienced a broad-based appreciation over August. In trade-weighted terms, the NZD gained 3.0%. The NZD was particularly strong against a still-weak USD and GBP. The NZD lift offset sharemarket gains in overseas markets, leading to a flat outturn for the MSCI index in NZD terms, despite the 3.9% gain in the USD MSCI index.

Date	Instrument	31-Aug-09	Month %	Quarter %	Year %	5-Year %
Cash	NZ cash rate	2.50	0.00	0.00	-5.50	-3.50
	NZ 90-day bank bill	2.78	-0.01	0.03	-5.37	-3.71
	US 90-day bank bill	0.35	-0.13	-0.32	-2.46	-1.43
	NZ - US 90-day bank bill	2.43	0.12	0.35	-2.91	-2.28
Fixed Interest	NZ 5-year gov't stock	4.91	0.14	0.36	-1.12	-1.28
	NZ 10-year gov't	5.71	-0.07	-0.06	-0.30	-0.50
	NZ 10-year swap	6.03	0.05	0.08	-0.98	-0.86
	AUS 10-year gov't	5.44	-0.27	-0.05	-0.34	-0.15
Equities	US 10-year gov't	3.44	-0.20	-0.17	-0.37	-0.74
	NZ - NZX50 (NZ\$)	2098	2.4%	11.2%	-13.3%	-23.7%
	AUS - All Ords (A\$)	4484	5.5%	17.6%	-14.0%	25.9%
	JAP - Nikkei (¥)	10493	1.3%	10.2%	-19.7%	-5.3%
	UK - FT100 (£)	4909	6.5%	11.1%	-12.9%	10.1%
	US - S&P500 (US\$)	1021	3.4%	11.0%	-20.4%	-7.6%
	WORLD - MSCI (US\$)	1086	3.9%	11.9%	-19.3%	5.4%
	MSCI in NZD (NZ\$)	1590	0.0%	2.9%	-16.7%	0.8%
Exchange Rates	NZD/USD	0.683	3.9%	8.8%	-3.1%	4.6%
	NZD/AUD	0.813	2.6%	2.2%	-0.1%	-12.5%
	NZD/JPY	63.3	1.1%	4.5%	-17.6%	-11.5%
	NZD/GBP	0.420	5.9%	6.9%	9.4%	15.8%
	NZD/EUR	0.478	2.8%	6.4%	0.0%	-11.6%
	NZ TWI	0.633	3.0%	5.9%	-3.6%	-4.9%
	EUR/USD	1.429	1.1%	2.2%	-3.1%	18.3%

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

- The RBNZ delivered the last cut of 50bp cut to the Official Cash Rate (OCR) on 30 April. The RBNZ kept the OCR on hold at 2.5% as widely expected on July 30, and the next review is 10 September.
- The 90-day bank bill yield was steady through August, trading in a narrow range around 2.78%. Market pricing at present remains consistent with the RBNZ on hold over the coming months.
- We are tipping our hat to a 25bp cut on September 10, but we freely acknowledge that we are a distinct minority in suggesting the RBNZ will cut.
- Term deposit rates for longer time frames remained high in August. Competition between banks for domestic retail funding saw some longer term rates lift slightly during the month.

### Fixed interest

- The upward trend for local government bond yields seen in the first half of the year has paused in July and August with the New Zealand 10-year Government Bond 10-year yield falling 7 basis points over the month, after slipping 19 basis points in July.
- NZ 10-year Gov't Bonds are currently trading with yields around 140 basis points above early 2009 lows. We expect yields to resume lifting as debt issuance increases over future years.
- US yields have been choppy lately. US 10-year Gov't yields rose to over 4% mid-June, before rallying back to close the month with yields around 3.5%. In July, US yields rose once again, but in August dipped 20 basis points, to end around 3.44%. The market is betwixt with opposing concerns over huge future bond issuance (driving yields up) and doubts over the strength of the US recovery (driving yields lower).

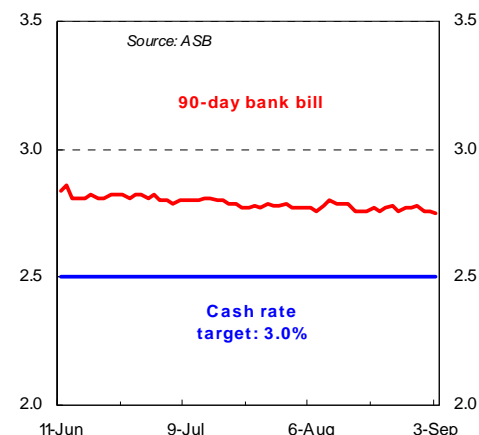
### Equities

- Overall, equity markets posted strong gains in August. The US Dow Jones rose by 3.5% for the month – marking its best August performance since 2000. The broader S&P 500 gained 3.4%.
- The Australian All Ords index rallied over the month, marking the sixth consecutive monthly gain, up by 5.5%. The NZ market posted a more modest 2.4% return over August, and is up over 10% for the year.
- The UK's FTSE 100 index posted the best return of the markets we monitor, gaining 6.5%. The Japanese market was once again the laggard, with the Nikkei lifting a more modest 1.3%.
- A NZD lift offset sharemarket gains in overseas markets, leading to a flat outturn for the MSCI index in NZD terms, despite the 3.9% gain in the USD MSCI index.

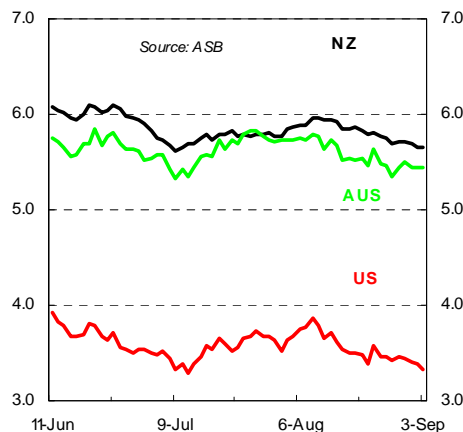
### Exchange rates

- The New Zealand dollar (NZD) experienced a broad-based appreciation over August. In trade-weighted terms, the NZD gained 3.0%.
- The NZD was particularly strong against a still-weak USD and GBP. The New Zealand economic data continued to reflect some stabilisation (at low levels) in New Zealand's economy over the month, and the local currency continued to receive support from improved expectations for global growth.
- The NZD managed to reach an 11-month high of US\$0.6897 late in the month, but failed several times to press through 0.69 against the USD.
- The NZD has lifted off its 2009 lows against the AUD, and gained 2.6% on the AUD over August. Our year-end forecasts have the NZD trading around 0.805 AUD and 0.700 against the USD.

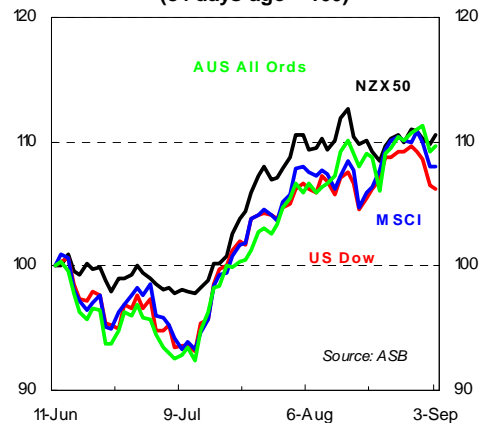
% p.a. **NZ SHORT-TERM RATES**



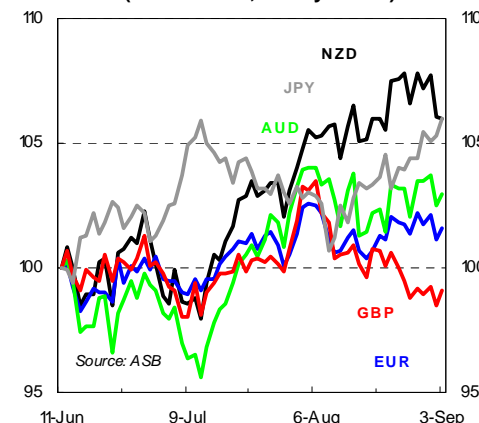
% p.a. **10-YEAR BOND YIELDS**



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



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



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