

# Markets Monthly

## Sharemarkets and bonds rally on through September.

- Sharemarkets around the world continued to rally in September.
- Bond yields fell over the month, as some investors questioned the economic recovery.
- NZD was strong during September, lifting 5.6% on the USD and 3.6% on a trade-weighted basis.

Given its reputation for being a historically weak month, global investors were only too happy to lock in profits in first couple of trading sessions in September. The profit-taking activity in early September was further accentuated by the sharp gains recorded in August. However, the catalyst which prompted investors to switch back into equity markets was largely better-than-expected economic data. The considerable improvement in manufacturing activity across the globe was the main highlight for investors. The global manufacturing index released in September rose to a 26-month high.

The US non-farm payrolls report released on 5 September signalled the pace of contraction in the US labour market was easing. In addition, in early September G20 leaders vowed to keep stimulus in place to ensure that the mistakes of the 1930s depression were not repeated. And a US\$16.7 billion takeover bid by US food company Kraft for British confectionery giant Cadbury supported speculative trade as investors looked to other possible takeover targets. The latter part of September resulted in mixed economic data that gave investor reason to lighten positions and lock in profits. Rising oil inventories hurt energy stocks. US share trading volumes were light late in the month, with the Jewish New Year having an impact on trading. End of quarter activity by fund managers added to the volatility.

Overall, equity markets posted strong gains in September. The US S&P 500 gained 3.6% Meanwhile the Australian All Ords index rallied by 5.7% over the month, marking the seventh consecutive monthly gain. The NZX-50 gained a more modest 1% over September.

For the majority of the month, the US dollar (USD) fell. The continued enthusiasm of markets for a global economic recovery, guiding equity markets to 2009 highs and supporting commodities prices weighed on the USD. The USD touched 1-year lows against many currencies. In particular, the New Zealand dollar (NZD) posted strong gains of the month. The Kiwi lifted 5.6% against the USD, and 3.6% on a trade weighted basis.

In the lead up to the 24 September US Federal Reserve monetary policy meeting, markets began to question whether there would be some change in the FOMC commentary. The FOMC left interest rates on hold and left their assessment of the policy outlook unchanged, reiterating that interest rates were likely to remain 'exceptionally low for an extended period of time'.

Date	Instrument	30-Sep-09	Month %	Quarter %	Year %	5-Year %
Cash	NZ cash rate	2.50	0.00	0.00	-5.00	-3.75
	NZ 90-day bank bill	2.81	0.03	-0.01	-5.19	-3.92
	US 90-day bank bill	0.29	-0.06	-0.31	-3.59	-1.72
	NZ - US 90-day bank bill	2.52	0.09	0.30	-1.60	-2.20
Fixed	NZ 5-year gov't stock	4.96	0.05	0.19	-0.61	-1.20
	Interest					
Interest	NZ 10-year gov't	5.64	-0.07	-0.32	-0.07	-0.49
	NZ 10-year swap	6.04	0.01	0.00	-0.76	-0.80
	AUS 10-year gov't	5.41	-0.09	-0.23	-0.06	-0.05
	US 10-year gov't	3.30	-0.13	-0.21	-0.32	-0.78
Equities	NZ - NZX50 (NZ\$)	2119	1.0%	11.4%	-3.4%	-25.2%
	AUS - All Ords (A\$)	4739	5.7%	20.0%	2.3%	29.0%
	JAP - Nikkei (¥)	10133	-3.4%	1.8%	-10.0%	-6.4%
	UK - FT100 (£)	5134	4.6%	20.8%	4.7%	12.3%
	US - S&P500 (US\$)	1057	3.6%	15.0%	-9.4%	-5.2%
	WORLD - MSCI (US\$)	1127	3.8%	16.9%	-4.7%	7.6%
	MSCI in NZD (NZ\$)	1563	-1.7%	5.6%	-11.5%	-0.2%
Exchange	NZD/USD	0.721	5.6%	10.7%	7.7%	7.8%
	Rates					
Rates	NZD/AUD	0.820	0.9%	1.9%	-2.1%	-12.2%
	NZD/JPY	64.7	2.2%	3.8%	-7.3%	-12.8%
	NZD/GBP	0.450	7.1%	14.9%	20.9%	21.0%
	NZD/EUR	0.493	3.2%	6.8%	5.7%	-9.1%
	NZ TWI	0.656	3.6%	7.0%	3.3%	-3.4%
	EUR/USD	1.462	2.3%	3.7%	1.8%	18.6%

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% on 10 September.
- The 90-day bank bill yield was steady through September, trading in a narrow range around 2.78%. Market pricing remains consistent with the RBNZ on hold over the coming months. However, a run of reasonable economic data in September has brought forward the expected timing of interest rate hikes from the RBNZ. We expect the bank will start lifting the OCR around June next year.
- Competition between banks for domestic retail funding is keeping term deposit rates high.
- Term deposit rates for longer time frames remain around 6%, and even short-term rates are often noticeably higher than the OCR.

### Fixed interest

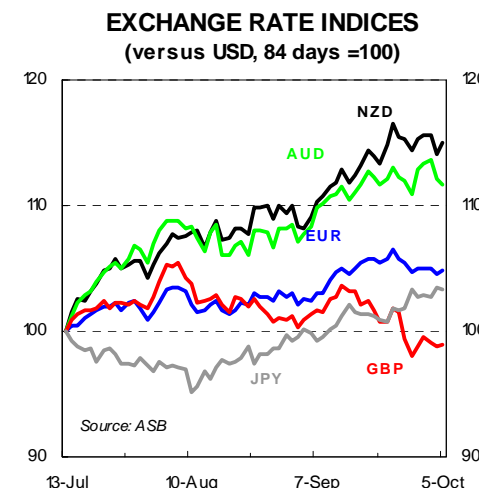
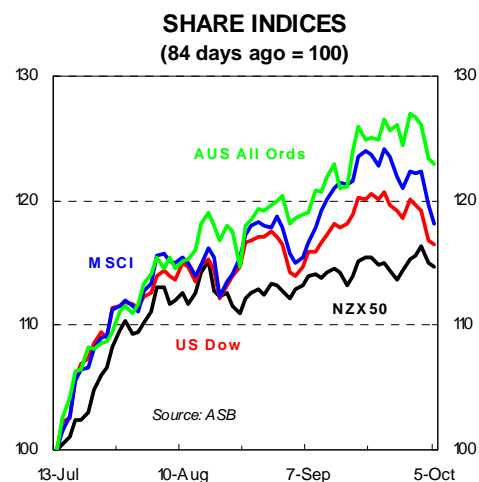
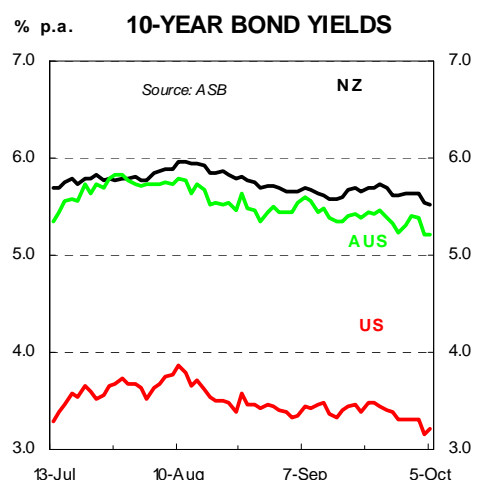
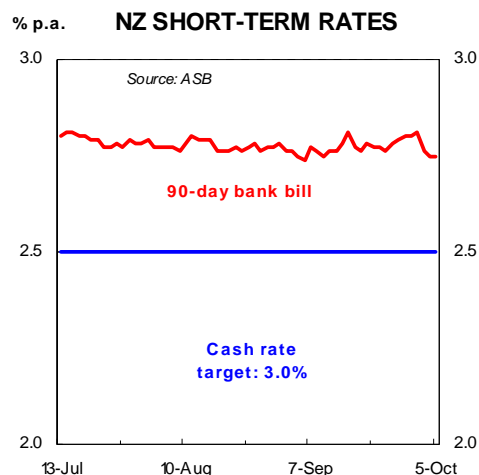
- Government bond yields both here and abroad eased in September.
- The fall in yields was attributable to a reduction in inflation expectations, with a number of foreign central bank speakers (including the US Federal Reserve's Ben Bernanke and the ECB's Jean-Claude Trichet) cooling down expectations for rate hikes, and settling inflation fears.
- We expect yields to resume lifting as debt issuance increases over future years. However, right now the weight of money in bond markets around the world is keeping rates down.
- The US market remains betwixt with opposing concerns over huge future bond issuance (driving yields up) and doubts over the strength of the economic recovery (driving yields lower).

### Equities

- Overall, equity markets posted strong gains in September, despite a weak run into the month's end. The S&P 500 gained 3.6% in the month, despite slipping 1.2% over the last seven days of the month.
- The Australian All Ords index rallied over the month, marking the seventh consecutive monthly gain, lifting by 5.6%. The NZ market posted another modest return over September, lifting 1%, to be 25% up from the 2009 low point back in early March.
- The Japanese market was once again the laggard, with the Nikkei declining 3.4% in September, after its weak 1.3% gain in August.
- A NZD lift offset sharemarket gains in overseas markets, leading to a 1.7% loss for the MSCI index in NZD terms, despite the 3.8% gain in the USD MSCI index.

### Exchange rates

- The New Zealand dollar (NZD) was a stand-out performer of the month, outperforming all the main currencies during the month.
- The NZD reached a 1-year high against the USD of US\$0.7312 and a year-to-date high of 0.834 against the AUD.
- In trade-weighted terms, the NZD appreciated 3.6%.
- There were a series of factors which aligned over the month to provide support to the NZD, including: the economy edging out of recession in QII; RBNZ significantly diluted their easing bias in their September Statement on Monetary Policy; a lift in dairy prices and an associated upward revision to Fonterra's payout forecast; and increased global confidence supporting commodity currencies, particularly the NZD.



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