



Markets Monthly

Mixed month for markets in November.

- Global sharemarkets rally over first half of November, and hang onto gains.
- Markets got the jitters late in the month due to negative developments in Dubai.
- NZ dollar posted gains against a weak USD, but lost ground on the other cross rates monitored.

The sharemarket volatility that was existent in the past couple of months had all but disappeared in the early part of November. Investors focused on the global recovery with the jitters of October well and truly in the past. Over the first two weeks of November, the MSCI lifted 4.7%, boosted by strong share performance in the US, where the S&P 500 gained 5.5% between 30 October and 13 November.

Providing further impetus to markets was the general improvement in economic conditions. The US manufacturing sector grew at its fastest pace in 3-1/2 years in November while the global manufacturing index hit a 39-month high. Importantly, the US housing sector continued to strengthen with US home sales rising for the eighth straight month. Chinese economic data was positive, and supported the strength in commodity prices and stocks. Chinese industrial production expanded at the fastest pace in 19 months, while retail sales grew at the fastest pace in 10 months. Chinese authorities confirmed that the extent of the current stimulus will remain in place until the economic recovery gains traction.

Global share markets mostly consolidated the recent round of gains over the third week of November, effectively moving sideways. There was a scare for markets in the latter part of November, after Dubai asked creditors of flagship companies, Dubai World and Nikkei, to agree to a freeze on debt repayments as a first step in restructuring the debt. The uncertainty over which banks had exposure and to what degree saw equity markets tumble. However as further clarity over the debt obligations were revealed traders focused the sell-off on European banks which had a large proportion of the exposure.

Overall markets realised that the Dubai debt issue was more a blip on the radar than the beginning of a whole new credit crisis. The scare did contribute to demand for US treasuries. Yields fell over the month, with a significant drop occurring in the last week. In contrast, NZ Government bond yields rose over November.

For the full month, the S&P500 gained 5.7%. Despite giving back some significant gains toward the end of the November, the FTSE ended up 2.9%. The local market struggled, and slid 3.3% over the month. The Japanese sharemarket fared worse, with the Nikkei Index down 6.9%.

Over the month the USD weakened, which helped the NZD post gains on the NZD/USD cross. The NZD weakened on all the major cross rates monitored.

Date	Instrument	30-Nov-09	Month %	Quarter %	Year %	5-Year %
Cash	NZ cash rate	2.50	0.00	0.00	-4.00	-4.00
	NZ 90-day bank bill	2.80	0.01	0.02	-3.00	-3.88
	US 90-day bank bill	0.26	-0.03	-0.09	-1.95	-2.14
	NZ - US 90-day bank bill	2.54	0.03	0.11	-1.05	-1.74
Fixed	NZ 5-year gov't stock	5.31	0.14	0.37	0.45	-0.64
Interest	NZ 10-year gov't	5.94	0.17	0.23	0.83	-0.01
	NZ 10-year swap	6.05	-0.16	0.02	0.22	-0.61
	AUS 10-year gov't	5.30	-0.28	-0.20	0.72	0.08
	US 10-year gov't	3.23	-0.19	-0.21	0.25	-1.11
Equities	NZ - NZX50 (NZ\$)	2078	-3.3%	-1.0%	8.5%	-30.5%
	AUS - All Ords (A\$)	4716	1.5%	5.2%	28.4%	19.6%
	JAP - Nikkei (¥)	9346	-6.9%	-10.9%	9.8%	-14.3%
	UK - FT100 (£)	5191	2.9%	5.7%	21.1%	10.4%
	US - S&P500 (US\$)	1096	5.7%	7.3%	22.2%	-6.7%
	WORLD - MSCI (US\$)	1145	3.5%	5.4%	28.2%	1.5%
	MSCI in NZD (NZ\$)	1589	2.9%	-0.1%	-1.9%	0.5%
Exchange Rates	NZD/USD	0.720	0.5%	5.5%	30.6%	1.0%
	NZD/AUD	0.784	-1.8%	-3.6%	-6.7%	-14.6%
	NZD/JPY	62.4	-3.6%	-1.5%	18.8%	-15.2%
	NZD/GBP	0.434	-0.8%	3.4%	21.3%	15.1%
	NZD/EUR	0.478	-1.8%	0.1%	11.9%	-11.1%
	NZ TWI	63.9	-1.3%	0.9%	14.7%	-7.4%
	EUR/USD	1.51	2.4%	5.4%	16.8%	13.6%

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

- In October, the RBNZ put a dampener on market expectations of rate hikes in early 2010 with a deliberately dovish statement. The RBNZ was direct, stating *"In contrast to current market pricing, we see no urgency to begin withdrawing monetary policy stimulus, and we expect to keep the OCR at the current level until the second half of 2010."*
- The next RBNZ meeting is on 10 December. We expect the RBNZ to remain on hold, but forecast the RBNZ to begin rising the OCR in Q2 2010.
- Bank Bill yields were little changed over November. Accordingly, the return on short-term deposits remained low during the month. In contrast, competition amongst local banks is keeping long-term rates high, with some 5-year term deposits now paying over 6.5%.

Fixed interest

- Government bond yields rose in New Zealand over November, in contrast to yields offshore which fell.
- The yield on government bonds in the US, Europe and Asia have been driven lower by a safe-haven reallocation of assets and rekindled concerns in the global markets that the recovery may be fraught with setbacks.
- The potential credit default risk emanating out of Dubai fuelled this concern into month's end.
- Central bank speakers in the US and Europe have also presented a united front to hold interest rate expectations down and quell concerns that the extraordinary measures employed to generate an economic recovery may cause inflation down the track.

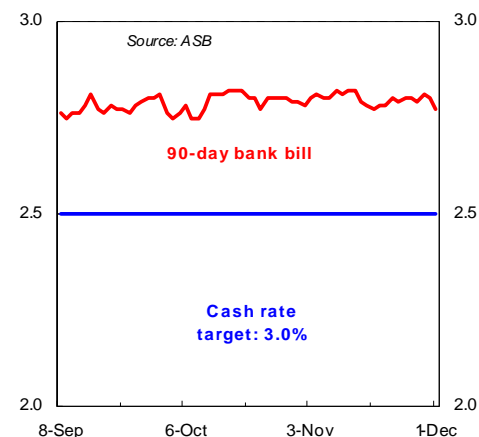
Equities

- Over the first two weeks of November, the MSCI lifted 4.7%, boosted by strong performance of the US Sharemarket. The S&P 500 gained 5.5% between 30 October and 13 November.
- There was a scare for markets in the latter part of November, after Dubai asked creditors of flagship companies, Dubai World and Nakheel, to agree to a freeze on debt repayments as a first step in restructuring the debt.
- Overall markets realised that the Dubai debt issue was more a blip on the radar than the beginning of a whole new credit crisis. Over November, the S&P500 gained 5.7%. Despite giving back some significant gains toward the end of the month the FTSE ended up 2.9%.
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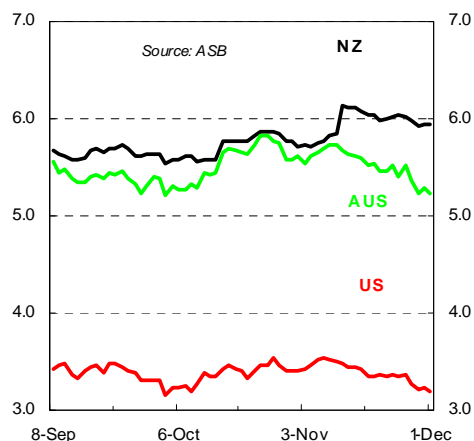
Exchange rates

- The NZ dollar rose in the first half of October, outperforming on most crosses.
- The exception was the AUD. The NZD lost ground on the AUD in the first two weeks of November, briefly rose above 0.80 around the 17th and 18th on November, then spent the rest of the month in decline.
- In the latter part of the month, a renewed bout of risk aversion saw the NZD weaken and the local unit ended down on all the crosses monitored apart from a still-weak USD.
- On a trade weighted basis, the NZD ended the month down 1.3%. We expect the USD to remain weak in the coming months, which would see the NZD appreciation resume.

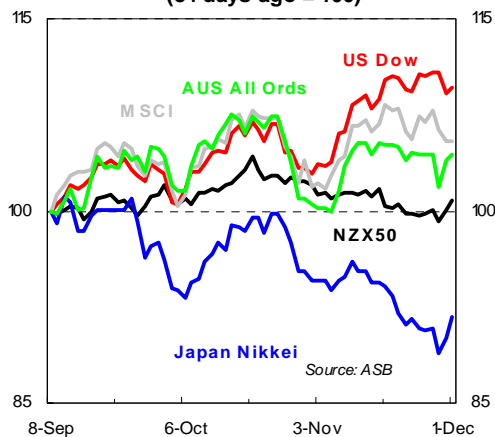
% p.a. **NZ SHORT-TERM RATES**



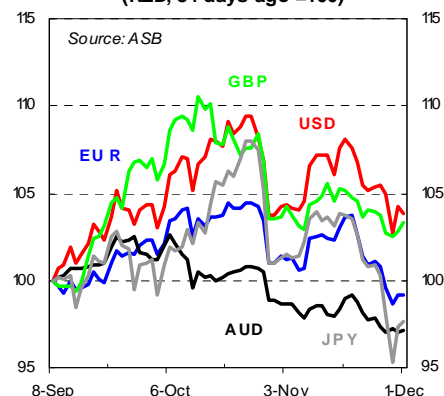
% p.a. **10-YEAR BOND YIELDS**



SHARE INDICES
(84 days ago = 100)



EXCHANGE RATE INDICES
(NZD, 84 days ago =100)



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