

Markets Monthly

Equity markets perform well as Greek concerns abate

- Commodity currencies benefited from the upbeat global sentiment throughout March.
- EUR weighed down by Greek saga, although recent announcements helped ease concerns.
- US interest rates lift as markets suffer indigestion from large issuance of US Treasury debt.

Overall markets enjoyed a relatively smooth ride in March as investors seemed content at the progress of economic recovery across advanced nations. The MSCI index recorded growth of 5.9% over the month (3.7% adjusting for NZ dollar returns).

The upbeat global sentiment favoured the commodity currencies, although the NZD underperformed. At the March Monetary Policy Statement, markets focused on the lower medium-term outlook for the 90-day track as the RBNZ highlighted the role of bank funding costs in reducing the extent of future OCR increases.

In Australia, markets waxed and waned with changing cash rate expectations. The RBA kicked off the month with a 25 basis point hike, later followed by comments from RBA Governor Stevens on the risks of leaving rates too low for too long and warning against speculating in the property markets, which fuelled market expectations another rate hike would be delivered in April. Toward the end of the month, bullish sentiment on the Asia-Pacific waned, triggered by tightening by India and Malaysia (increasing fears the Chinese will follow suit) and a run of weaker Australian data.

Concerns for the fiscal position of Greece continued to weigh on the EUR throughout March. The Greek government tapped the bond market late in the month, but markets were disappointed in the high yields and low bid-to-cover ratios achieved. In addition, sentiment was also marred by weak economic data and ratings downgrades to German bank Deutsche Bank (by Moody's) and Portugal (by Fitch to AA- with a negative outlook). The EUR eventually gained support at the end of the month, after an announcement Germany and France have come to an agreement whereby Greece could access EU and IMF funds if required.

US, NZ and AU government bond yields lifted during March, following poor interest in US Treasury bond auctions by indirect bidders (typically foreign investors). The auction results raised concerns around the market's ability to absorb the increase in government debt issuance over the next few years.

Date	Instrument	31-Mar-10	Month %	Quarter %	Year %	5-Year %
Cash	NZ cash rate	2.50	0.00	0.00	-0.50	-4.25
	NZ 90-day bank bill	2.64	-0.07	-0.16	-0.69	-4.44
	US 90-day bank bill	0.29	0.04	0.04	-0.92	-2.81
	NZ - US 90-day bank bill	2.35	-0.11	-0.20	0.23	-1.63
Fixed Interest	NZ 5-year gov't stock	5.22	0.17	-0.31	0.73	-1.02
	NZ 10-year gov't	6.01	0.22	-0.10	0.74	-0.18
Interest	NZ 10-year swap	5.96	0.11	-0.20	0.18	-1.07
	AUS 10-year gov't	5.81	0.27	0.08	1.15	0.13
	US 10-year gov't	3.87	0.22	0.07	1.13	-0.69
	Equities	NZ - NZX50 (NZ\$)	2136	2.2%	-0.2%	20.0%
Equities	AUS - All Ords (A\$)	4893	5.2%	0.2%	38.5%	19.3%
	JAP - Nikkei (¥)	11090	9.5%	5.2%	36.8%	-5.0%
	UK - FT100 (£)	5680	6.1%	4.9%	44.7%	16.0%
	US - S&P500 (US\$)	1169	5.9%	4.9%	46.6%	-0.9%
	WORLD - MSCI (US\$)	1201	5.9%	2.7%	49.1%	4.3%
	MSCI in NZD (NZ\$)	1694	3.7%	4.7%	19.5%	4.1%
	Exchange Rates	NZD/USD	0.709	2.2%	-1.9%	24.8%
Exchange Rates	NZD/AUD	0.775	-0.6%	-4.0%	-6.1%	-15.5%
	NZD/JPY	66.3	7.1%	-0.7%	18.7%	-12.7%
	NZD/GBP	0.471	3.6%	4.7%	18.5%	25.0%
	NZD/EUR	0.529	3.7%	5.1%	23.5%	-3.4%
	NZ TWI	66.2	2.9%	0.2%	16.1%	-4.7%
	EUR/USD	1.34	-1.4%	-6.7%	1.0%	3.7%

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 kept the OCR unchanged at 2.5% in March. The RBNZ left its near-term projection for the 90-day interest rate unchanged, sticking with its middle of 2010 assessment for rate hikes.
- More importantly, the market focused on the lower longer-term 90-day track. The Bank now assumes that bank funding costs will remain elevated, which reduces the amount of stimulus normally associated with a given level of the OCR.
- A run of softer data in NZ has started to highlight the risk of a later start to the tightening cycle, pushing back market pricing for OCR hikes. In addition, lumpy funding flows had further squeezed the 90-day rate lower, although these pressures begun to unwind at quarter-end.

Fixed interest

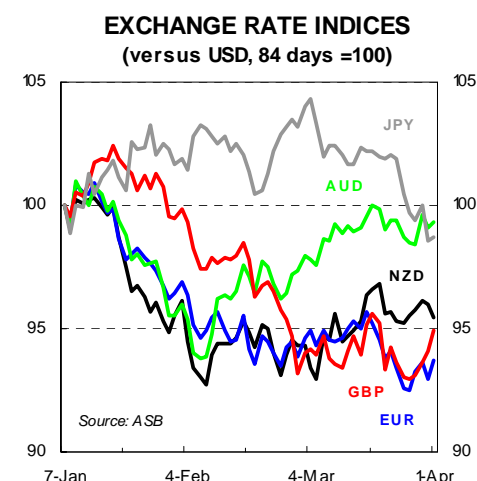
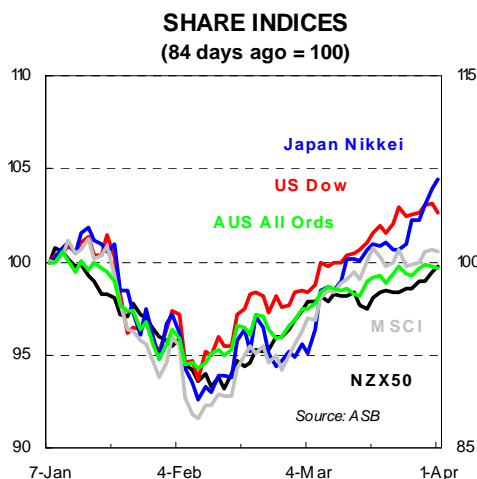
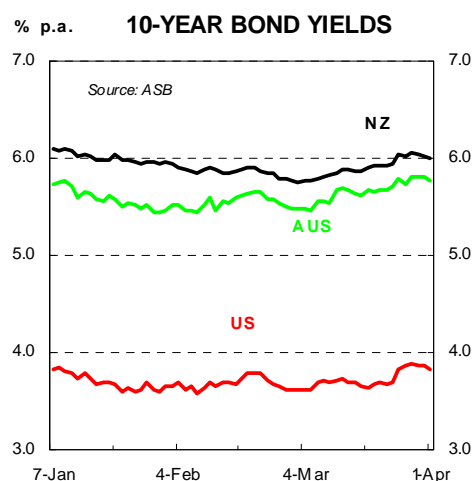
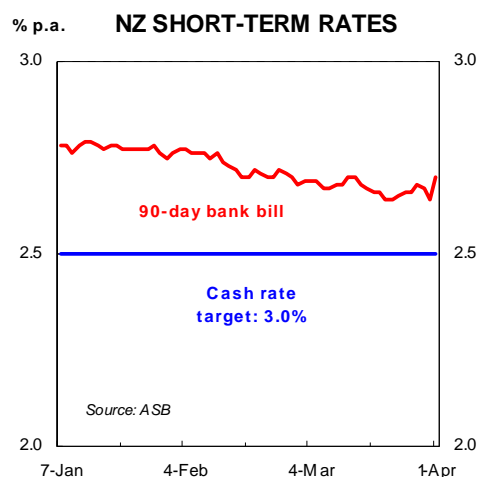
- Yields on NZ government bonds lifted strongly over March, led by rising US Treasury yields. US Treasury auctions were not well received, raising concerns on the market's ability to absorb larger volumes of US debt. The characteristic feature of these auctions was not the bid-to-cover ratio, which remained relatively high, but the low level of participation of the indirect bidders (a group which includes the Foreign Central Banks). There were market rumours that the Chinese Government was abstaining from the auctions.
- The Greek saga remains ongoing, although news of government budget cuts and the announcement Germany and France have come to an agreement where by Greece could access EU and IMF funds if required, was welcomed. Sovereign spreads have generally come down from their peaks, but remain very wide and volatile.

Equities

- Equities enjoyed relatively lower volatility during March. Overall, investors seemed content at the progress of economic recovery across advanced nations. The MSCI index recorded growth of 5.9% over the month (3.7% adjusting for NZ dollar returns). The main worry factor over the month was sovereign debt in Europe. Stocks fell on March 24 after Fitch cut Portugal's credit rating.
- US markets started on a strong note, celebrating the better-than-expected employment result. However, caution soon set in ahead of the vote on health reform.
- The Nikkei was the star performer of the month, buoyed by stronger local data. The Japanese labour market appears to have stabilised, with the unemployment rate falling in February. Continued industrial production growth and gains in capacity utilisation were also encouraging signs.

Exchange rates

- Improved global sentiment underpinned strong appetite for commodity currencies. However, the NZD was the underperformer, lifting 2.2% against the USD but falling 0.6% against the AUD.
- The AUD was supported by strong data and hawkish commentary from RBA Governor Stevens. However, toward the end of the month, bullish sentiment on Asia-Pacific waned, triggered by tightening by India and Malaysia and a run of weaker data.
- Concerns for the fiscal position of Greece continued to weigh on the EUR throughout March. Meanwhile the GBP came under pressure as concerns mounted for a hung parliament.
- The JPY came under pressure as increased optimism (both locally and abroad) and rising US government bond yields, encouraged increased investment abroad.



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