

Markets Monthly

Greece is the word

- Early April confidence short lived as focus returns to Europe.
- Ratings downgrades and bailout uncertainties increase European sovereign debt concerns.
- NZD staged a late-month rally after RBNZ kept door open to June rate hike.

April started out on an upbeat note, with the equity market maintaining momentum from the previous month's rally. Confidence was buoyed by strong economic data, in particular continued signs of a recovery in the US economy. The US labour market performed strongly, putting on 162,000 jobs in March. Furthermore, there are signs US consumer are starting to spend again. Many of the business surveys (the ISM, Philly Fed, and Empire Manufacturing indices) bettered expectations, suggesting the US recovery is broadening.

However, confidence began to peter out around the middle of the month. The global share market rally hit a hurdle with sovereign debt issues emanating out of Europe. During late April, S&P downgraded the credit rating of Greece to junk status. Adding to the sell-off over the second half of April was news that the US Securities and Exchange Commission had charged Goldman Sachs with securities fraud over its marketing of a debt product linked to sub-prime mortgages.

During mid-April, the initial Greece bailout plan was announced from the European Commission and the IMF. The plan was to provide €45 billion in funds (of which €30 billion was to come from European States) over a three-year period. However, German officials were later reported to be hesitant to provide the funds. Markets were unnerved by the chance the Greeks would have to turn solely to the IMF. Markets were also sceptical that the amount would be sufficient to save Greece from defaulting. Investors' concerns began to mount that contagion (to Portugal and Spain in particular) could lead to a European sovereign debt crisis. By the end of the month, the size of the bailout plan had more than doubled to €110 billion.

The AUD remained well supported through the month, with the RBA delivering another rate hike early in April and markets expecting further rate rises will be delivered. Expectations were further lifted following the slightly stronger inflation outturn. The NZD also gained support toward the end of the month, as the RBNZ kept the door open for a rate hike in June and Fonterra increased its milk price forecast.

Date	Instrument	30-Apr-10	Month %	Quarter %	Year %	5-Year %
Cash	NZ cash rate	2.50	0.00	0.00	0.00	-4.25
	NZ 90-day bank bill	2.73	0.09	-0.03	-0.12	-4.28
	US 90-day bank bill	0.34	0.05	0.10	-0.68	-2.87
	NZ - US 90-day bank bill	2.39	0.04	-0.13	0.56	-1.41
Fixed	NZ 5-year gov't stock	5.26	0.04	0.05	0.98	-0.61
	Interest					
Interest	NZ 10-year gov't	5.94	-0.07	-0.01	0.61	0.11
	NZ 10-year swap	5.86	-0.10	-0.06	0.49	-0.84
	AUS 10-year gov't	5.71	-0.10	0.26	0.96	0.39
	US 10-year gov't	3.74	-0.13	0.12	0.65	-0.41
Equities	NZ - NZX50 (NZ\$)	2142	0.3%	2.2%	13.9%	-28.2%
	AUS - All Ords (A\$)	4834	-1.2%	5.2%	29.1%	22.6%
	JAP - Nikkei (¥)	11057	-0.3%	8.4%	25.3%	0.4%
	UK - FT100 (£)	5553	-2.2%	7.0%	30.9%	15.7%
	US - S&P500 (US\$)	1187	1.5%	10.5%	36.0%	2.6%
	WORLD - MSCI (US\$)	1199	-0.2%	7.1%	34.2%	6.7%
	MSCI in NZD (NZ\$)	1653	-2.4%	4.0%	4.6%	7.2%
Exchange	NZD/USD	0.725	2.3%	3.0%	28.3%	-0.5%
Rates	NZD/AUD	0.779	0.5%	-1.3%	0.0%	-16.6%
	NZD/JPY	68.2	2.8%	7.6%	23.9%	-11.4%
	NZD/GBP	0.473	0.4%	8.3%	23.8%	24.0%
	NZD/EUR	0.547	3.3%	8.3%	28.5%	-2.9%
	NZ TWI	67.6	2.1%	4.5%	21.0%	-4.9%
	EUR/USD	1.33	-1.0%	-4.9%	-0.2%	2.5%

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 April, and indicated monetary policy tightening will commence in "the coming months", effectively leaving the door open to a move in either June or July.
- The market took April's statement as a sign the RBNZ was on the verge of raising rates. Markets are pricing in a 60% chance of a rate hike in June, which pushed the 90-day bank bill higher in the final days of April.
- April marked the first month of the RBNZ's new liquidity policy, which requires a minimum funding ratio for retail deposits and term wholesale funds. Competition for bank funds from local sources remains strong, reflected in the elevated level of the spread between term deposit and wholesale market rates.

Fixed interest

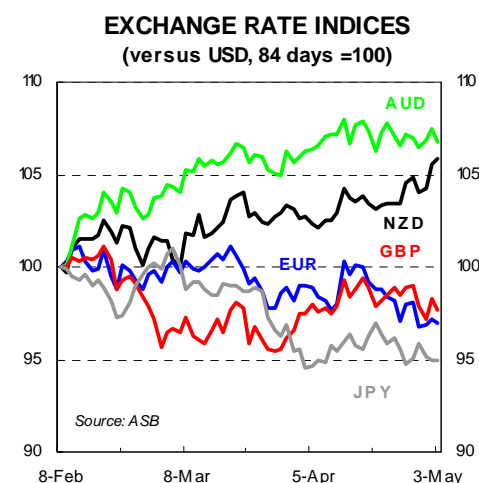
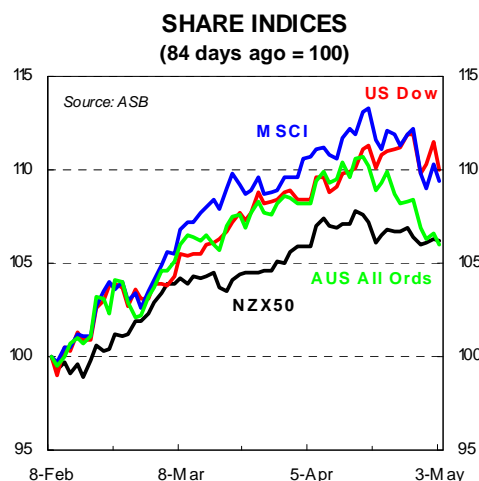
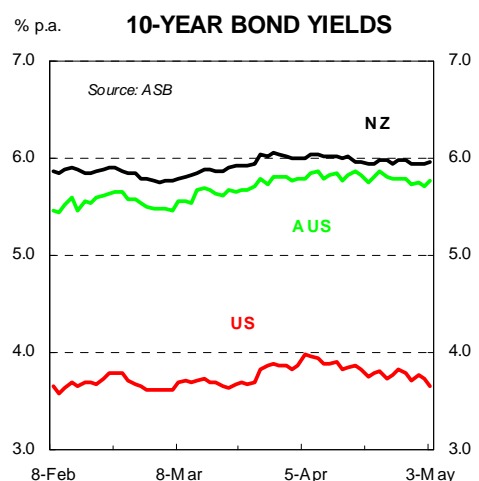
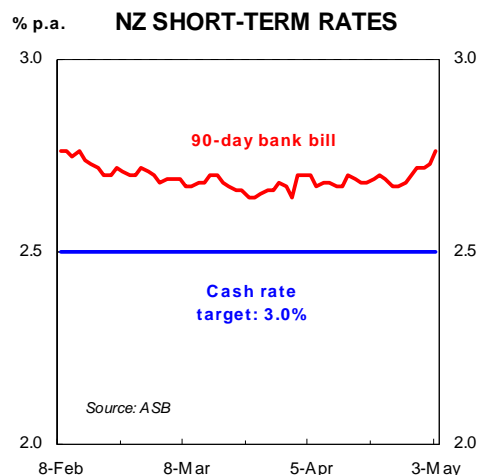
- The ratings agencies were active over the month. Fitch and S&P both downgraded Greece. S&P also downgraded Portugal and Spain, sparking fear amongst investors of contagion and a sovereign debt crisis in Europe. Moody's indicated it would soon deliver a multi-notch downgrade to Greece.
- Bond & swap yields fell as major bond markets rallied on the back of heightened sovereign risk concerns emanating out of Europe. The flight-to-quality rally in US Treasury bonds, saw 10-year Treasury yields decline 13 basis points over the month.
- Australian and New Zealand 10-year bond yields were also lowered by global developments, both falling 10 and 7 basis points respectively over the month. This resulted in a flattening in the yield curve as short-term interest rates lifted.

Equities

- Equity markets started the month upbeat, underpinned by strong economic confidence. However, momentum stalled as focus returned to European sovereign debt issues. Markets became weighed down as S&P downgraded credit ratings for Portugal, Spain and Greece. Adding to the late-month sell-off was charges against Goldman Sachs relating to securities fraud over its marketing of a debt product linked to sub-prime mortgages.
- The US S&P still managed to finish the month up 1.5%. However, falls in most other major markets saw the MSCI world index fall 0.2%, and decline 2.4% once adjusting into NZ dollar returns.
- The NZX50 managed to gain 0.3%, and was less affected by swings in global sentiment. However, the local market has underperformed global markets on a 3 month basis.

Exchange rates

- The NZD remained fairly steady throughout most of April, generally trading within a 2 cent range. However, the NZD rallied in the final days of April following the RBNZ Monetary Policy Statement and a higher milk price forecast by Fonterra. The NZD finished the month up 2.3% against the USD and up 0.5% against the AUD.
- The EUR was sold heavily over the month. Investors sought the USD as they diversified out of EUR.
- Opposing forces resulted in the GBP ending April broadly unchanged. Economic data was generally stronger than expected and BoE meeting minutes were more hawkish than expected. However, investors were also concerned about the UK election approaching in May and the strong probability of a hung parliament delaying much needed fiscal reform.



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