

Markets Monthly

25 July 2024



The tide turns

Recent New Zealand data tilts the risks towards earlier and larger OCR cuts than market participants and analysts (including ASB economists) were thinking earlier this year.

ASB's view is that the three remaining OCR decisions over 2024 are effectively 'live'. We have changed our OCR call and now expect 25bp cuts in both October and November 2024 (50bps in total).

The timing and magnitude of OCR cuts remains heavily data dependent and will also hinge on whether the RBNZ feels confident that inflation will settle in the 1-3% inflation target range.

We are not alone in New Zealand. Other countries are grappling with the outlook for interest rates. Bond markets have responded to the changing sentiment regarding central bank moves. Local yields were little changed on year ago levels at the end of June, but have been volatile, and in a downward trajectory over July.

Sharemarkets here and abroad were mixed over the second quarter of the year, with the NZ, Australian, and Japanese markets retreating while US shares pressed on to fresh highs.

The NZD weakened over June against the USD and AUD, but held up against other currencies, ending down 0.2% on a trade-weighted basis. Over the quarter the NZD posted gains on the major cross rates and was up 2.3% on a trade weighted basis.

Date		30-Jun-24	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	5.50	0.00	0.00	0.00	4.00
	NZ 90-day bank bill	5.63	0.00	0.00	-0.08	3.99
Fixed Interest	NZ 5-year gov't stock	4.53	-0.11	0.16	-0.07	3.28
	NZ 10-year gov't	4.68	-0.13	0.09	0.06	3.11
	AUS 10-year gov't	4.31	-0.09	0.32	0.30	2.99
	US 10-year gov't	4.40	-0.16	0.20	0.56	2.39
Australasian	NZ - S&P/NZX50 Capital (NZ\$)	4441	-1.5%	-3.6%	-4.8%	-3.0%
	- S&P/NZX50 Gross (NZ\$)	11717	-1.3%	-3.2%	-1.7%	11.8%
Equities	AUS - All Ords (A\$)	8014	0.5%	-1.7%	8.3%	19.6%
International Equities	JAP - Nikkei (¥)	39583	2.8%	-1.9%	19.3%	86.0%
	UK - FT100 (£)	8164	-1.3%	2.7%	8.4%	9.9%
	US - S&P500 (US\$)	5460	3.5%	3.9%	22.7%	85.6%
	WORLD - MSCI (US\$)	3512	1.9%	2.2%	18.4%	61.2%
	- MSCI return in NZD		2.4%	0.4%	18.3%	77.2%
Exchange Rates	NZD/USD	0.6092	-0.5%	1.7%	0.0%	-9.0%
	NZD/AUD	0.9133	-1.0%	-0.4%	-0.5%	-4.4%
	NZD/JPY	98.00	2.2%	8.1%	11.2%	35.9%
	NZD/GBP	0.4817	0.1%	1.6%	-0.1%	-8.9%
	NZD/EUR	0.5686	0.5%	2.7%	1.5%	-3.5%
	NZ TWI	72.06	-0.2%	2.3%	2.5%	-1.4%

Equity indices are the respective end-of-month closes. Interest rates and exchanges rates are at 5pm NZ. Source ASB, Macrobond.

For the latest performance information on ASB's funds click [here for ASB KiwiSaver Scheme](#), click [here for ASB Investment Funds](#). More information on [ASB Securities is here](#).

Income Assets

Cash

Term deposit interest rates remain above historical averages for the past 20 years for most terms. However, deposit interest rates on offer for longer terms have started to come down in late 2023 and 2024, as inflation concerns recede. The 5-year term deposit rate recently dipped below the 5% level which is coincidentally the 20-year average. What's more, the view of ASB economists is that term deposit interest rates are expected to ease over the year ahead.

ASB's term deposit interest rates are [tabled here](#), and selected rates and their lift off the lows recorded during the pandemic are shown in the table below.

Term Deposit Rates	90-days	6 months	9 months	1 Year	2 years	3 years	4 years	5 years
20-year ave	3.56	4.40	4.45	4.54	4.65	4.76	4.88	4.99
2020/2021 low	0.35	0.80	0.75	0.75	0.80	0.90	1.00	1.00
2023/24 peak	4.20	6.00	6.10	6.10	6.00	6.10	5.65	5.55
Jul-24	4.20	5.75	5.75	5.60	5.10	5.10	5.00	4.90

ASB reports on the RBNZ's OCR decisions and the economic outlook are [here](#). Term deposit reports can be [read here](#).

Asset	Instrument	30-Jun-24 Yield (%)	Month	Quarter	Year	5-Year
			Yield Change			
Cash	NZ Official Cash Rate	5.50	0.00	0.00	0.00	4.00
	NZ 90-day bank bill	5.63	0.00	0.00	-0.08	3.99
Fixed	NZ 5-year gov't stock	4.53	-0.11	0.16	-0.07	3.28
Interest	NZ 10-year gov't	4.68	-0.13	0.09	0.06	3.11
	NZ 10-year swap	4.50	-0.16	0.14	0.00	2.71
	AUS 10-year gov't	4.31	-0.09	0.32	0.30	2.99
	US 10-year gov't	4.40	-0.16	0.20	0.56	2.39

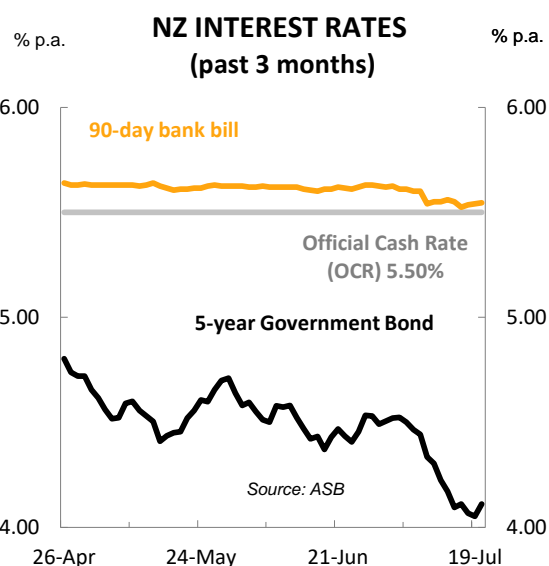
Fixed Interest

Government bond yields both here and abroad remain volatile, as market participants continue to debate when central banks will lower policy rates. The process is underway in some jurisdictions (e.g. Canada and the European Central Bank) and expected to start elsewhere (including New Zealand) later this year.

The RBNZ has kept the OCR on hold at 5.5% at its reviews this year. We have recently changed our OCR call and now expect 25bp cuts in both October and November 2024 (read our latest research [here](#)). The timing and magnitude of OCR cuts remains heavily data dependent and will also hinge on whether the RBNZ feels confident that inflation will settle in the 1-3% inflation target range. We are not alone in our thinking – Interest rates within the economy, from bond yields through to term deposits are pricing in a lower long term interest rate environment relative to the past few years.

Our CBA colleagues expect other central banks around the world will ease policy settings. Markets are pricing in rate cuts for the US FOMC, the European Central Bank, and the Bank of England.

An exception to the widespread expectation of lower rates is Australia, where markets are pricing in some possibility the RBA may need to deliver another interest rate increase to curb inflation pressures. However, our CBA colleagues continue to expect the RBA will hold the line, and the next move will be to begin a gradual easing cycle from late 2024.



Growth Assets

Asset	Index	30-Jun-24 Level	Month %	Quarter %	Year %	5-Year %p.a.
			Change			
Equities	NZ - S&P/NZX50 Capital (NZ\$)	4441	-1.5%	-3.6%	-4.8%	-0.6%
	- S&P/NZX50 Gross (NZ\$)	11717	-1.3%	-3.2%	-1.7%	2.3%
	AUS - All Ords (A\$)	8014	0.5%	-1.7%	8.3%	3.6%
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	UK - FT100 (£)	8164	-1.3%	2.7%	8.4%	1.9%
	US - S&P500 (US\$)	5460	3.5%	3.9%	22.7%	13.2%
	WORLD - MSCI (US\$)	3512	1.9%	2.2%	18.4%	10.0%
WORLD - MSCI (NZD)			2.4%	0.4%	18.3%	77.2%

Local and International Equities

The NZ sharemarket underperformed over the second quarter of 2024, but has picked up over recent weeks, as shown in the chart to the right.

The NZX50 (Gross) index is down 1.7% over twelve months ending June 30, and still down around 8% from its 2021 highs, at the time of writing in July.

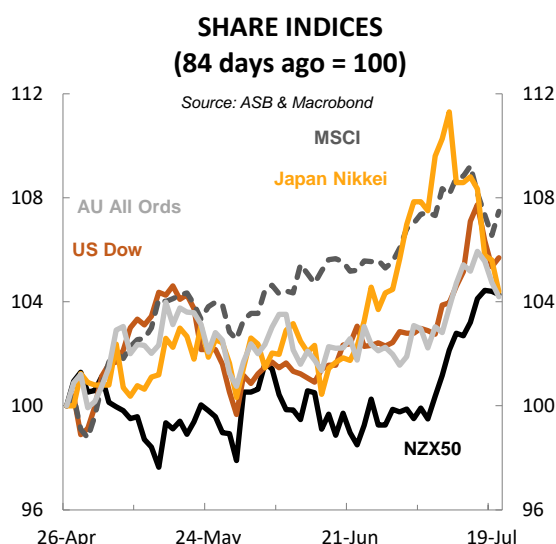
The Australian sharemarket lifted 0.5% in June but was down 1.7% over the second quarter. Nonetheless, the Australian market continues to trade within “cooee” of record highs, only 1% shy of those highs at the time of writing.

The Japanese Nikkei 225 sharemarket index has weakened recently, but the gains over the past few years have been impressive. At the time of writing the Japanese benchmark is 6% down on the all-time highs set over the past month, as charted to the right.

The UK’s FTSE sharemarket index posted a 1.3% decline in June but is up for the quarter and year. The benchmark is circa 3% below all-time highs at the time of writing, in the wake of the UK election this month.

The MSCI global index lifted 1.9% last month and is up 18.4% over the year to 30 June when measured in USD terms.

You can read more on these issues in ASB’s latest economic forecasts [here](#) and economic event reports [here](#). ASB Securities has more information on sharemarkets and trading [here](#).



Exchange Rates

The NZD weakened over June against the USD and AUD, but held up against other major currencies, ending down 0.2% on a trade-weighted basis. Over the quarter the NZD posted gains on the major cross rates and was up 2.3% on a trade weighted basis over the three months ending June 30. NZD/USD has dipped below 0.6000 in July.

Exchange Rate	30-Jun-24	Month	Quarter	Year	5-Year
		Change			
NZD/USD	0.6092	-0.5%	1.7%	0.0%	-9.0%
NZD/AUD	0.9133	-1.0%	-0.4%	-0.5%	-4.4%
NZD/JPY	98.00	2.2%	8.1%	11.2%	35.9%
NZD/GBP	0.4817	0.1%	1.6%	-0.1%	-8.9%
NZD/EUR	0.5686	0.5%	2.7%	1.5%	-3.5%
NZ TWI	72.06	-0.2%	2.3%	2.5%	-1.4%

More information about currencies and ASB’s latest forecasts are available in ASB’s weekly economic report which can be [downloaded here](#).

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