AMP CAPITAL

INVESTMENT BRIEF

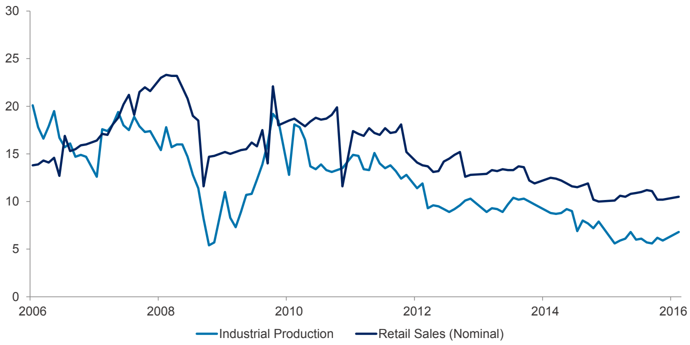
APRIL 2016

Global equity markets continued to climb higher over April which saw global equities all but recover the losses experienced at the start of the year. April marked the first month this year that emerging market equities underperformed their developed market counterparts. The New Zealand share market was again a strong performer and New Zealand shares continue to be in strong demand by offshore investors. Global bonds ended marginally higher over April led by a strong rally in corporate bonds, while New Zealand bonds also delivered a positive return. The New Zealand dollar was down over the month until the RBNZ left rates unchanged and disappointed the market by not emphasising its easing bias more.

1. Stabilisation in China

China activity

Annual % change



Source: NBS

> There are increasing signs of economic stabilisation in China, with a notable pick-up in higher frequency activity indicators into the end of the quarter.

> This recovery in activity reflects monetary and fiscal policy easing and demonstrates the Government's willingness and capacity to support activity when it needs to.

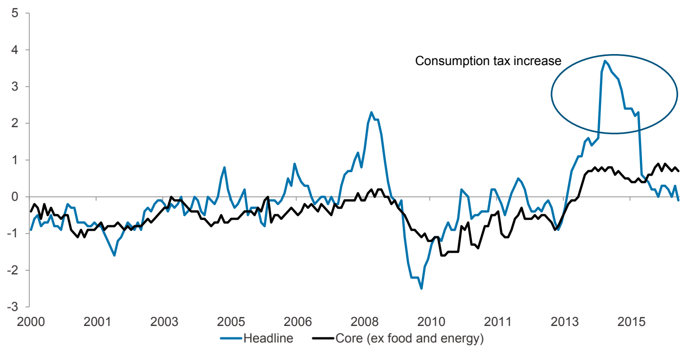
> We expect there is already sufficient stimulus in the economy for the pick-up to be sustained for much of the rest of the year, but wouldn't rule out further fiscal stimulus should it be deemed necessary.

> We expect stability in the RMB/USD exchange rate as capital outflows have slowed on the back of the Fed's dovish turn.

2. BoJ revises down but does nothing new

Japan inflation

Annual % change



Source: Bloomberg

> The Bank of Japan (BoJ) revised down growth and inflation forecasts at its April meeting, but surprised markets by doing nothing new in terms of monetary policy.

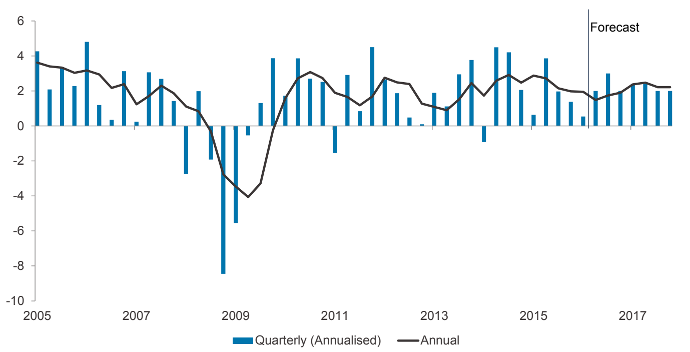
> The BoJ's lack of action can likely be attributed to a desire to wait and see what impact the recent negative interest rate policy will have on the economy, and a desire to ease in decisive steps rather than incrementally.

> This decision came the same day as latest inflation data showed annual headline inflation dipping back below zero and core inflation coming in below expectations. At the same time, latest activity indicators remain sluggish.

3. US growth disappoints – real or transitory?

US GDP

Percent change



Source: US BEA and AMP Capital

> In the US growth in activity remains lacklustre. Much of the loss of momentum in the economy can be put down to the lingering impact of the appreciation in the US dollar and the significant degree of uncertainty created by market volatility earlier this year.

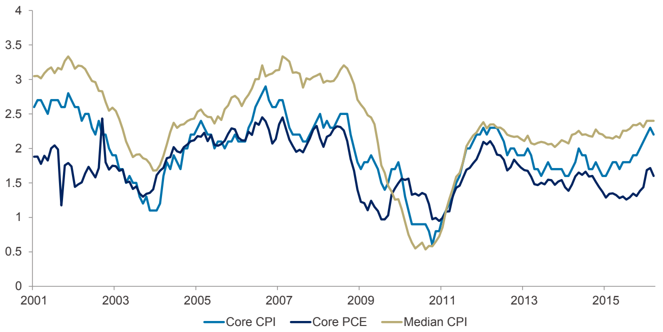
> We believe this weakness will ultimately prove transitory and that growth will return to an annualised 2% pace as the year unfolds. This is based on the view that the labour market will continue to post solid jobs growth.

> The risk in that view is the labour market is simply displaying its typical lagging behaviour and that too begins to weaken in the next few months.

4. What does this mean for the Fed?

US inflation

Annual % change



Source: BEA, BLS, Federal Reserve Bank of Cleveland, AMP Capital

> The loss of momentum in the economy will be of concern to the US Federal Reserve (the Fed), as evidenced in the recent commentary from various voting and non-voting members erring to the dovish end of the spectrum.

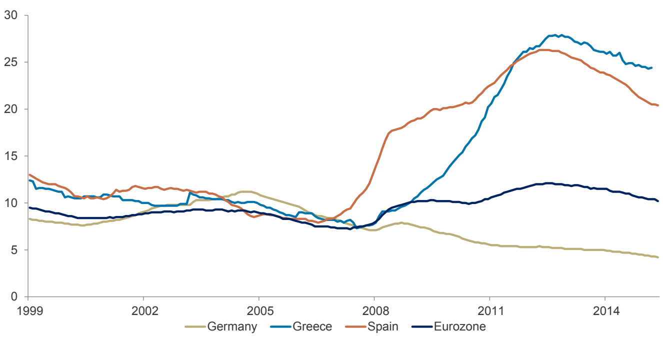
> But it's not absolute growth that matters to the Fed – it's absolute growth relative to potential. With potential growth currently around 1.3% per annum we still see growth running ahead of potential and continuing to absorb spare capacity.

> Continued softness in activity indicators is leading to a loss on strength of conviction in our view that the Fed hikes again in June. In that event, September becomes the next most likely hike, along with the likelihood of only one hike this year.

5. Europe: growth improving but inflation still low

Eurozone unemployment

Percent



Source: Eurostat

> Activity indicators are slowly improving in the Eurozone. Q1 GDP came in better than expected, though the economy is probably still running at around a 1.5% annual pace.

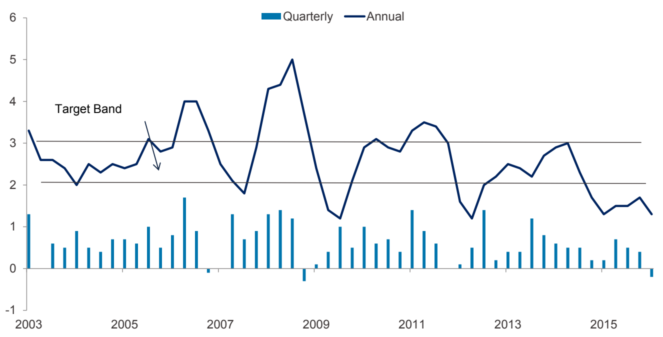
> The rate of unemployment continues to drift lower, though is still too high to put any sustained upward pressure on wages and inflation.

> After easing in March, the European Central Bank left monetary conditions unchanged in April. The detail has still to be worked through in terms of operationalising some of the measures announced in March. We can't rule out the Bank taking further action given current low inflation and limited near-term chances of a significant move higher.

6. RBA cuts…

Australia CPI

% change



Source: ABS

> The Reserve Bank of Australia (RBA) cut the official cash rate in May taking it to 1.75%, its lowest on record. Justifying the move, the RBA cited recent low inflation data and a lower outlook for inflation than had been previously forecast.

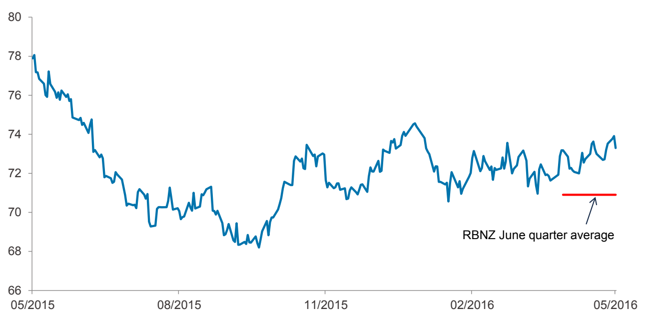
> While the RBA seems reasonably content with the rebalancing of the economy, it's clearly concerned that if it doesn't act quickly the low sub-target inflation seen recently will start to feed through to inflation expectations and become self-perpetuating.

> The RBA also referred to an appreciation in the Australian dollar complicating the economic adjustment in the economy, so the dollar's strength was clearly a secondary factor justifying the cut.

7. …making another RBNZ cut more likely

New Zealand TWI

Index



Source: Reserve Bank of New Zealand

> When the RBNZ cut interest rates in March, they flagged a further cut was likely. However, the Bank opted to leave interest rates unchanged at its April OCR review.

> We thought the recent strength in the trade weighted exchange rate would be enough to get them over the line. But there are reasons not to cut, primarily the strength in the housing market as further interest rate cuts risk adding fuel to an already hot market and potentially undermining financial stability. Also, growth in the economy is running above trend and the labour market is continuing to tighten.

> However, the strength in the exchange rate could yet prove sufficient for the Bank to cut again, especially following the recent cut in interest rates in Australia.

MARKET COMMENTARY

GLOBAL SHARES

Global equities continued to climb higher, gaining 0.9% over the month of April. This marks an 11% rebound from the February lows, and sees global equities all but recover the losses experienced over the first six weeks of the year when many markets entered bear territory. Global share markets were generally positive over the month led by energy companies on the back of a rising oil prices. US shares gained a modest 0.4% while European shares ended 1.5% higher. Japanese shares ended in negative territory as the Bank of Japan decided not to undertake more monetary easing despite soft economic data. Emerging market equities returned -0.1% over April, marking the first month they have underperformed their developed market counterparts this year. Within emerging markets, China (as measured by the MSCI China Index) returned -0.2%, dragged lower by concerns there won't be more policy stimulus as data points to a possible rebound in the Chinese economy.

NEW ZEALAND SHARES

The New Zealand share market was again a strong performer over April, gaining 1% for the month. New Zealand shares continue to be in strong demand with its high dividend yield being attractive to offshore investors. Year-to-date domestic shares are up 7.9%, 9% above global shares. Orion Health Group was the standout performer, gaining 20.2% over the month, followed by Z Energy, up 16.1%. Orion Health's share price benefited following the announcement of some significant contract wins which sees the company expanding in Queensland, England, Scotland and Canada. Shares in Z Energy rallied 9.6% on the final day of the month as the NZ Commerce Commission announced that it has approved Z Energy's application to acquire 100% of the Chevron New Zealand business.

NEW ZEALAND LISTED PROPERTY

New Zealand listed property continued its strong performance, gaining 1.6% over April. For the second successive month all ten stocks in the index experienced a positive return, with Augusta Capital and CDL Investments leading the way forward gaining 8.1% and 6.3% respectively. Domestic property has gained 6.9% year-to-date, 1.0% below the broader domestic market.

GLOBAL BONDS

Global bonds ended marginally higher over April led by a strong rally in corporate bonds. Global sovereign bonds ended slightly lower over the month as the BoJ surprised the market by not undertaking additional monetary easing, despite softer economic data and the US Fed maintained its gradual tightening bias. The Fed retained its key message that it will not do anything to upset the outlook for global and US growth. The Barclays Global Aggregate Index returned 0.24% over April. Yields on the US 10-year Treasury closed the month at 1.83%, up six basis points over the month.

NEW ZEALAND BONDS AND CASH

New Zealand bonds delivered a positive return over April. The Reserve Bank of New Zealand (RBNZ) left the Official Cash Rate (OCR) unchanged at its record low level of 2.25% at its April meeting. The market had correctly anticipated no change. However, a number of market participants had expected that to come with an enhanced easing bias which was not forthcoming. The RBNZ stuck to the line that further easing may be required, the same as the March statement.

The 90 Day Bank Bill yield ended April six basis points higher at 2.40%, while the 10-year NZ Government bond yield ended down eight basis points at 2.85%.

COMMODITIES

Commodities rallied strongly over April with the Bloomberg Commodities Index gaining 8.5% for the month. The surge higher was led by crude oil, with West Texas Intermediate (WTI) rallying 20% over the month. WTI is now 75% above its February lows. The oil market is gradually rebalancing as global oil demand slowly climbs and lower prices curb production outside of the OPEC countries. The International Energy Agency expects the oil oversupply to fall to 200,000 barrels per day from 1.5 million barrels per day in the first half of this year. The Global Dairy Trade auction was another positive commodity story in April, gaining 6.0%, and experiencing its first consecutive price rise since December 2015.

GLOBAL LISTED PROPERTY & INFRASTRUCTURE

Global listed property experienced a small decline over the month. Global listed infrastructure experienced a small gain, boosted by the commodity sensitive sub-sectors.

NEW ZEALAND DOLLAR

The New Zealand dollar (NZD) continued to climb higher over April, gaining 0.5% on a trade weighted basis. The NZD was down over the month until the RBNZ left rates unchanged and disappointed the market by not emphasising its easing bias more than it did. Over the month the NZD was mixed against the major currencies, stronger against the US dollar, Australia dollar and euro, and weaker against the British pound and Japanese yen.

	AS AT 30 APRIL 2016	CHANGE OVER THE MONTH (%)	CHANGE OVER THE YEAR (%)
MSCI - US	8066.67	+0.5	+0.5
MSCI - UK	11993.32	+1.5	-7.4
MSCI - Germany	3137.95	+0.7	-11.8
MSCI - Japan	1688.93	-0.4	-15.7
S&P/NZX 50	6820.58	+1.0	+17.8
MSCI - World (local curr.)	4844.94	+0.9	-4.2
MSCI - World (NZD)	9248.64	+0.7	+5.2
NZ Official Cash Rate	2.25	0 bps	-125 bps
NZ 90-day bank bill yield	2.40	6 bps	-124 bps
NZ 10-year bond yield	2.86	-12 bps	-58 bps
US 10-year bond yield	1.83	6 bps	-20 bps
NZD-USD	0.6977	+1.0	-8.4
NZD (TWI)	73.5	+0.5	-6.1
NZD (MSCI weighted)	75.9	+0.3	-8.9