Bramwell Brown Ltd

Investment Advisers – Brokers

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Bramwell Brown Limited – Newsletter – February 2014

This month's newsletter will be very brief due to the fact I have been out of the office for much of this month. Normal service should resume with the March newsletter.

Melbourne

My wife and I had a thoroughly enjoyable ten days in Melbourne at the end of January, visiting our daughter and taking in some of the Australian Open tennis. We were lucky enough to only have to endure two days of the 40 degree heat. Our accommodation was next to the Melbourne office of the Reserve Bank of Australia, so I waltzed in one morning hoping to speak to one of their economists about interest rates, exchange rates and economic policy. Not so – the security guard kindly informed me it was a Federal building and the public were not allowed in. Maybe some forward planning would have been advisable. I did, however meet with Alex Hay from Baillieu Holst, the brokers we use to conduct our Australian business. Alex is the son of Ronald Hay, who some of you would have met when he visited Masterton in 2010. I will report more fully on our meeting in next month's newsletter.

Infratil Bond

The latest Infratil bond is still available.

- Maturity Date – November 15th 2019
- Interest paid quarterly
- Minimum investment - $5,000
- Interest rate – 6.75%

Contact Energy Bond

Contact Energy has announced a new issue of approximately $225 million of unsecured, unsubordinated bonds. Existing holders of Contact Energy bonds maturing in May will be offered the opportunity to roll those bonds over under the new terms. Those terms (interest rate and maturity date) should be known sometime in February.

CONTACT THE OFFICE AS SOON AS POSSIBLE IF THESE OFFERS ARE OF INTEREST TO YOU

Interest Rates

The Reserve Bank this week left the Official Cash rate (OCR) unchanged at 2.50%. Below is the bank's commentary following the announcement.

"New Zealand's economic expansion has considerable momentum. Prices for New Zealand's export commodities remain very high, especially for dairy products. Consumer and business confidence are strong and the rapid rise in net inward migration over the past year has added to consumption and housing demand. Construction activity is being lifted by the Canterbury rebuild and by work in Auckland to address the housing shortage. Continued fiscal consolidation will partly offset the strength in demand. GDP grew by 3.5 percent in the year to September, and growth is expected to continue around this rate over the coming year.

While agricultural export prices are expected to come off their peak levels, overall export demand should benefit from improving growth in the global economy. However, improvements in the major economies have required exceptional monetary accommodation and there remains uncertainty about the timing of withdrawal of this stimulus and its effects, especially on emerging market economies.

Annual CPI inflation was 1.6 percent in 2013, and forward-looking measures of firms' pricing intentions have been rising. Construction costs are increasing and risk feeding through to broader costs in the economy. At the same time, there appears to have been some moderation in the housing market in recent months. The high exchange rate continues to dampen inflation in the traded goods sector, but the Bank does not believe the current level of the exchange rate is sustainable in the long run.

While headline inflation has been moderate, inflationary pressures are expected to increase over the next two years. In this environment, there is a need to return interest rates to more-normal levels. The Bank expects to start this adjustment soon.

The Bank remains committed to increasing the OCR as needed to keep future average inflation near the 2 percent target mid-point. The scale and speed of the rise in the OCR will depend on future economic indicators."

Some commentators had predicted an increase in the OCR this month, and I think it is now highly likely the next increase will be in March, with further increases throughout the year. Banks have already increased mortgage rates in anticipation of the change, and term deposit rates have also slowly been increasing. This is good news for long-suffering fixed interest investors who have endured a number of years of returns below 5%.