

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Bramwell Brown Limited – Newsletter – November 2014

Gisborne

Please accept my apologies for the brevity and lateness of this month's newsletter. My wife and I took advantage of the short week after Labour Day and spent some time in Hawke's Bay and Gisborne. Our accommodation in Gisborne looked out over a very busy port and I was intrigued at the sheer volume of logs being trucked in non-stop each day. I did some rough calculations based on the number of trucks that came in during the time it took me to eat breakfast and it worked out at well over 1,000 truck-loads of logs per day. There was a ship from Singapore loading logs around the clock for the three days we were there. The Napier port was similarly packed to the gunnels with raw timber. I remember talk of this from the Opposition leading up to the election – bemoaning the fact that as a country we don't process the timber and export it as a high-quality finished product.

My limited grasp of economics suggests there must be a reason we don't process all the timber ourselves. If it was profitable to do so somebody would be doing it. A friend who works in the industry explains there a number of reasons, the first of which is the volume of timber we produce – we don't currently have the capacity in New Zealand to process it all. The other reason is the comparative advantage other countries (e.g. China) have in their cost of labour. It's cheaper (in some instances) to export the raw product to China, have it made into a piece of furniture and then import it back into New Zealand, than it is to make that same piece of furniture here.

Official Cash Rate

The Reserve Bank last week left the Official Cash Rate unchanged at 3.5 percent. Here is an excerpt from the statement issued by Reserve Bank Governor Graeme Wheeler.

“The global economy is growing at a moderate rate although recent data suggests some softening in the major economies, apart from the United States. Monetary policy is expected to remain supportive for longer in all the major economies. Growth in the New Zealand economy has been faster than trend over 2014, reducing unemployment and adding to demands on productive capacity. Strong construction sector activity, high net immigration, and interest rates which remain low by historic standards, continue to support the expansion. Inflation remains modest, and was 1 percent in the year to September.

Contributing factors are subdued wage inflation, well-anchored inflation expectations, weak global inflation, falls in oil prices, and the high New Zealand dollar. House price inflation has fallen significantly since late-2013, in part due to interest rate increases and the LVR restrictions. The economy appears to be adjusting to the policy measures undertaken by the Bank over the past year. Inflation is currently at a low level despite above-trend growth. However, inflation is expected to increase as the expansion continues. A period of assessment remains appropriate before considering further adjustment.”

For investors it seems inevitable that we will have to endure lower interest rates for longer. The global recovery is far from assured and the Reserve Bank is in a difficult position whereby raising interest rates has the unwanted effect of raising the exchange rate. The positive thing for fixed-interest investors is that inflation remains low; therefore your capital is not being eroded to a great extent. The low interest rates will continue to shore up the sharemarket as investors look for returns that can beat bank deposits.

Sharemarket

The low-interest rate environment has clearly had a positive effect on the sharemarket. The NZSX50 has risen 12.5% this year following gains of 24% and 16% in 2012 and 2013 respectively. I would encourage all share investors to review the value of individual holdings and assess whether taking some profits may be a good option. If you would like a no-obligation review of your investments don't hesitate to contact the office at any time.

Trustpower Bond Offer

Trustpower has \$75 million of senior bonds maturing on December 15th 2014. Trustpower is considering making an offer of new seven year bonds to refinance these maturing bonds and for general corporate funding. The offer will comprise an Exchange offer and a General offer. In total Trustpower intends to raise \$100 -125 million. The Exchange Offer will provide existing holders of the bonds an opportunity to exchange their bonds on a first come, first served basis. The General Offer is expected to seek to raise up to \$75 million from retail and institutional investors.

The interest rate for the intended offer is expected to be set through a bookbuild process with selected NZX broking firms on or about Friday November 14th. The General and Exchange Offers are expected to open on or about Monday November 17th, with the Exchange Offer to close on or about Tuesday December 2nd and the General Offer to close on or about Monday December 8th. Full details of the offer are expected to be released on or about Friday November 14th.

PLEASE CONTACT THE OFFICE AS SOON AS POSSIBLE IF THIS OFFER IS OF INTEREST TO YOU

DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE