

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Official Cash Rate

The Reserve Bank last week left the Official Cash Rate (OCR) unchanged at 1.75 percent. Here is the statement issued by Reserve Bank Governor Graeme Wheeler.

Macroeconomic indicators in advanced economies have been positive over the past two months. However, major challenges remain with on-going surplus capacity in the global economy and extensive geo-political uncertainty. Global headline inflation has increased, partly due to a rise in commodity prices, although oil prices have fallen more recently. Core inflation has been low and stable. Monetary policy is expected to remain stimulatory, but less so going forward, particularly in the US. The trade-weighted exchange rate has fallen 4 percent since February, partly in response to weaker dairy prices and reduced interest rate differentials. This is an encouraging move, but further depreciation is needed to achieve more balanced growth.

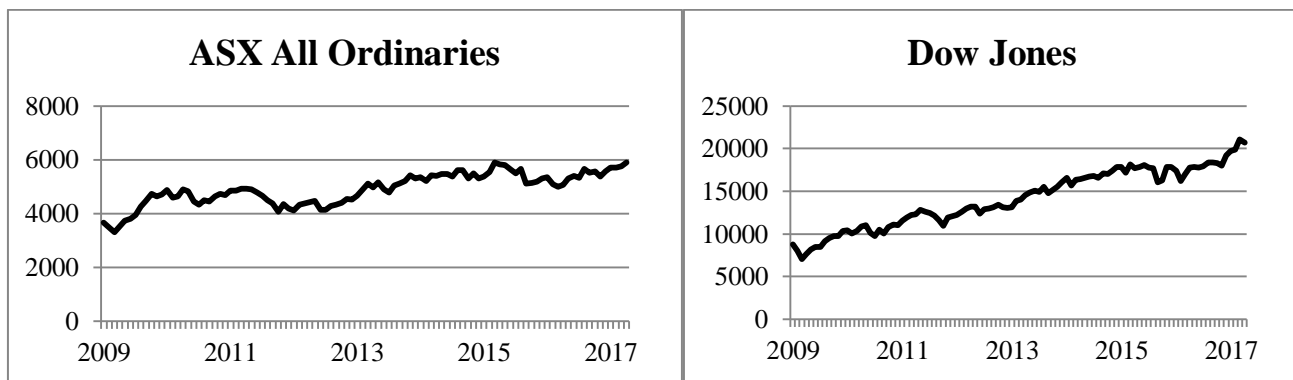
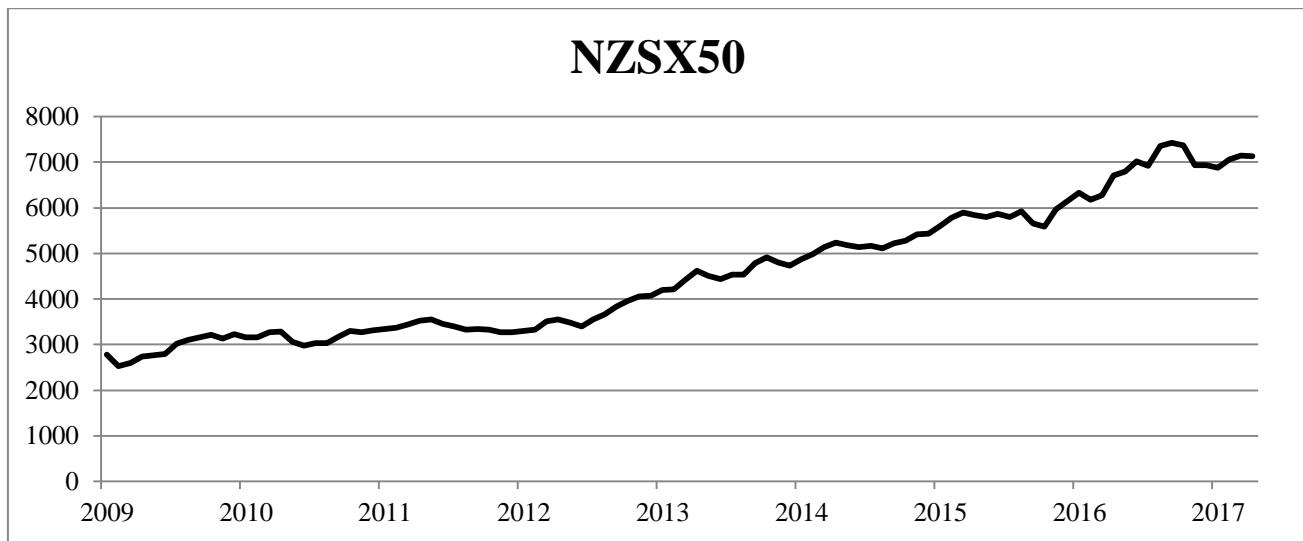
Quarterly GDP was weaker than expected in the December quarter, but some of this is considered to be due to temporary factors. The growth outlook remains positive, supported by on-going accommodative monetary policy, strong population growth, and high levels of household spending and construction activity. Dairy prices have been volatile in recent auctions and uncertainty remains around future outcomes. House price inflation has moderated, and in part reflects loan-to-value ratio restrictions and tighter lending conditions. It is uncertain whether this moderation will be sustained given the continued imbalance between supply and demand.

Headline inflation has returned to the target band as past declines in oil prices dropped out of the annual calculation. Headline CPI will be variable over the next 12 months due to one-off effects from recent food and import price movements, but is expected to return to the midpoint of the target band over the medium term. Longer-term inflation expectations remain well-anchored at around 2 percent. Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain, particularly in respect of the international outlook, and policy may need to adjust accordingly.

My take on this statement is that we shouldn't expect to see interest rates increase for quite some time.

Share Markets

Equity markets around the world showed strong gains after Donald Trump's election win in November. The promise of tax reforms, deregulation, and increased infrastructure spending led to an expectation of continued global growth. The Dow Jones Industrial Average increased from around 18000 in November to 21000 in early March (an increase of 16%). Since then Trump has struggled to have some of his reforms passed and the markets have given up some of their gains. Below are charts showing the movement in New Zealand, Australian and US share indices over the last eight years. The theme is similar across countries; however remember the NZSX50 index is a gross index (explained in the December newsletter). If we were to use data from the NZX Capital Index we can see it has increased by 72% since 2009.



Do these charts encourage us to continue investing in equities? When will the next financial shock hit the global economy? Will we look back in years to come and ask “why didn't we see it coming”? At present the fundamentals (low interest rates and relatively low inflation) are in place for equity markets to continue their upward trend; however there are many other factors that can influence the markets. My advice is not to try and predict a correction, but be mindful of the implications on your portfolio if that does indeed occur. Review your exposure to equities and be certain it fits with what you are trying to achieve.

Spending the Kids' Inheritance

There was an interesting piece on breakfast television last week talking about pressure being put on parents to retain their assets in order to pass a legacy to their children. I've written previously about people of my parent's generation going without in retirement so they can leave a legacy for their children. In my opinion we owe a debt to our parents, not the other way around. We enjoy a far better standard of living than our parents and grandparents did and I'm certain that will continue. My theory is that I've invested in my children's education and I've hopefully instilled in them a good work ethic. They should now have the ability to make their way in life and hopefully become financially independent. Of course we help them out at times but I'd be surprised if my children had an expectation that I am going to work myself to an early grave in order to leave them a legacy.

NZ Superannuation

Thank goodness someone has finally had the foresight to start the political debate on the age of eligibility for NZ Superannuation. Bill English will seek a mandate at the upcoming general election to raise the retirement age from 65 to 67 by 2040. Whether these changes proceed will depend on the outcome of the election, and potential coalition partners; however I think it's a good thing we are having the debate. I've always been an advocate of raising the age of eligibility. Here are some relevant statistics:

- The average age of death has increased from 60 to approximately 85 in the last 50 years
- Every five years longevity increases by one year
- My grandchildren will live to be one hundred
- Currently there are approximately seven taxpaying workers for each retired pensioner
- In 2050, there will be only two tax-paying workers for each retired pensioner
- The current cost of NZ Super is \$11 billion per annum
- By 2037 the cost will be \$36 billion per annum

If passed, the age of eligibility will begin progressively lifting in 2037, reaching 67 by 2040. The residency requirement for eligibility will also be changed, from ten years to twenty years. The age for the veterans' pension and the Super Gold Card would increase in line with that for NZ Super; however the age for accessing KiwiSaver funds would stay at 65.

Some are arguing the Government isn't going far enough – that the changes should come into effect immediately. Others believe the NZ Super should be means tested so that wealthy people are not eligible. The problem I see with means testing is that it sends a signal that working hard and saving for your retirement is not worthwhile. If those with good savings habits aren't eligible for Super but those with poor savings habits are, where is the incentive to work hard and save your money?

Reset Securities

Here are the current values of some of the resettable securities trading on the secondary market.

Security	Coupon	Benchmark	Margin	Next Reset	Price
ASB	3.42%	1 year swap rate	1.30%	15/11/17	83.50
ASB	3.20%	1 year swap rate	1.00%	15/05/17	81.50
ANZ	5.28%	5 year swap rate	2.00%	18/04/18	103.12
ANZ	7.20%	5 year swap rate	3.50%	25/05/20	104.47
Credit Agricole	5.04%	3 month bill rate	1.90%	19/12/17	91.00
Fonterra	4.38%	1 year Govt stock	1.95%	10/07/17	92.00
Genesis Energy	6.19%	5 year swap rate	2.15%	15/07/18	103.00
Infratil	3.63%	1 year swap rate	1.50%	15/11/17	65.00
Kiwi Bank	7.25%	5 year swap rate	3.65%	27/05/20	103.80
Quayside Holdings	4.32%	3 year swap rate	1.70%	12/03/17	95.45
Rabobank	2.88%	1 year swap rate	0.76%	08/10/17	96.88
Rabobank	8.34%	5 year swap rate	3.75%	18/06/19	105.02
Works Finance	6.29%	1 year swap rate	4.05%	15/06/17	102.70

Bank Term Deposit Rates

Here is a summary of some of the bank rates on offer at present.

	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ*	3.80%	4.05%	4.15%	4.30%	4.40%
ASB	3.20%	3.90%	4.00%	4.15%	4.25%
BNZ	3.25%	3.85%	4.00%	4.15%	4.25%
Heartland	3.40%	3.40%	3.70%	3.75%	3.80%
Kiwibank	3.50%	3.85%	4.00%	4.15%	4.30%
Rabobank*	3.60%	4.04%	4.14%	4.28%	4.43%
UDC	3.80%	3.85%	3.85%	4.05%	4.15%
Westpac	3.40%	3.70%	3.80%	4.00%	4.10%

* ANZ and Rabobank rates are available through an intermediary relationship with Bramwell Brown Limited.