BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

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Official Cash Rate

In their latest meeting the Reserve Bank increased the Official Cash rate from 2.25% to 2.50% Here is a summary of their decision, together with the key takeaways.

The Monetary Policy Committee today reached consensus to increase the OCR by 25 basis points to 2.50 percent. Following the partial reopening of the Strait of Hormuz, global oil prices have fallen markedly. Other petrochemical prices have also moved lower. As a result, near-term inflation pressures have eased. Although energy prices have decreased, the effects of the shock will linger for some time and the outlook for medium-term inflation pressures remains uncertain. The stance of monetary policy is calibrated to bring inflation back to target without causing unnecessary economic instability.

Global growth has been resilient to the effects of tariffs and conflict in the Middle East, largely because of strong AI-related investment and spending on defence and economic security. Headline inflation in New Zealand's trading partners has increased but is expected to ease to close to 2 percent in 2027. Markets expect global policy rates to increase above pre-conflict levels, as central banks may need to respond to persistent energy-driven inflation pressures.

New Zealand's economic recovery was underway before the Middle East conflict, but lost momentum in the June quarter as the oil shock weighed on economic activity. Growth is expected to resume in the September quarter as these effects fade and confidence improves. Over the medium term, inflation returning to the 2 percent target mid-point will lift household purchasing power and help support a sustained recovery in growth and employment.

The outlook for medium-term inflation pressures depends on the extent to which recent cost increases feed through into higher prices. Spare capacity in the economy is expected to limit firms' ability to pass on higher costs, meaning many businesses may need to absorb them in margins. However, some firms may look to rebuild margins as demand recovers. If sustained, a lower exchange rate could also add to medium-term inflation pressures. With inflation still above target and economic activity expected to strengthen, some further reduction in monetary stimulus is likely to be required to return inflation to the 2 percent target mid-point. Future OCR decisions will depend on how incoming data, price-setting behaviour, and the strength of economic activity affect medium-term inflation pressures.

What is the Official Cash Rate, and How Does it Work?

The Official Cash Rate (OCR) is a tool used by the Reserve Bank to influence monetary conditions in the economy. The Reserve Bank is charged with maintaining a sound and efficient monetary and financial system by managing inflation to keep prices stable. Specifically, the Reserve Bank's objective is to keep future annual inflation between 1% and 3%, with a focus on keeping future inflation near the 2% mid-point.

In broad terms, when inflation is expected to remain above the target range, the Reserve Bank will generally raise the OCR to reduce demand in the economy. Conversely, when inflation is expected to be too low, it may lower the OCR to encourage spending and investment. We have seen this in action since the Global Financial Crisis in 2008-2009. At that time the OCR was 8%. When the financial crisis unfolded, governments all over the world reduced interest rates in an effort to mitigate the impact of the crisis on the economy. Interest rates remained low for a decade. Unfortunately Covid added fuel to the fire, creating another round of reducing rates. Low interest rates encourage spending, as it is cheaper to obtain credit. We saw this in the housing market – low mortgage rates were a major contributor to the sharp rise in house prices, alongside limited housing supply and strong population growth. Many economists have argued that interest rates remained too low for too long following the pandemic, contributing to the subsequent surge in inflation. Others note that policymakers were responding to an unprecedented level of economic uncertainty.

Registered banks hold settlement accounts with the Reserve Bank, which are used to settle payments between banks. Throughout each day, customer transactions cause funds to move between these accounts, leaving some banks with surplus balances and others with shortages. The Reserve Bank pays interest on positive settlement balances and charges interest when banks require overnight liquidity. These rates are closely linked to the OCR, which effectively anchors overnight wholesale interest rates.

Because banks can earn (or pay) interest with the Reserve Bank at rates closely linked to the OCR, it influences the rates at which banks lend to one another. Those wholesale funding costs then flow through to the interest rates banks charge borrowers and pay to depositors.

Markets

JB Were provides Bramwell Brown with various research reports. Here is a summary of their view on markets at present.

If there has been one defining feature of markets this year, it has been the need to navigate a constant stream of cross currents. July was no exception. At various points during the month, markets had to weigh renewed Middle East tensions, shifting interest rate expectations, technology earnings, AI-related volatility and tariff developments. Despite this, global equities remain at near record highs and returns have generally been decent. This is clearly encouraging and we broadly expect that to continue. But the investment environment has felt more difficult than headline index performance suggests.

Nowhere is that more evident than in artificial intelligence. AI remains one of the most important long-term investment themes. However, the trade has entered a more complex phase. The infrastructure buildout continues, demand for compute remains strong and leading companies are still reporting robust revenue and margins. However, much future optimism is already embedded in valuations of the large year-to-date outperformers, raising the bar for further positive surprises.

Additionally, investors are increasingly scrutinising whether the heavy capital expenditure behind AI will generate adequate returns. With operating cash flow being increasingly absorbed by investment, markets are asking how sustainable spending plans are, whether additional capital may be needed and which parts of the AI ecosystem will ultimately capture the greatest share of future profits. These aren't simple questions to answer.

Positioning has also amplified volatility within the AI theme of late. Euphoria, speculation and leverage pushed some semiconductor and infrastructure names sharply higher before profit-taking triggered reversals. This reinforces the need to distinguish durable long-term winners from temporary beneficiaries of enthusiasm, while maintaining diversification across the AI ecosystem and managing portfolio position sizes carefully. The situation in the Middle East also remains a focal point. The concern has not been the conflict itself, but the risk that it escalates into a broader regional event with significant consequences for energy markets, inflation, interest rates and growth. We can't be complacent, even though our core view, like the market's, is that the most severe outcomes are unlikely.

From here, it is fair to say that further shocks are inevitable. Yet disciplined investors should stay anchored to fundamentals, expect volatility, remain diversified and keep an open mind. In a complex market, taking a long-term perspective and portfolio discipline remain essential.

Current Bond Yields

Here is a selection of the current yields on commonly traded bonds listed on the NZX.

Company	Coupon	Maturity Date	Yield
Wellington Airport	6.02%	September 2030	4.90%
Infratil	6.00%	December 2030	5.40%
Mercury Energy	5.17%	April 2033	4.80%
Heartland Bank Limited	7.51%	April 2033	5.54%
Kiwibank Limited	6.40%	May 2033	4.93%
Infratil	5.93%	June 2030	5.60%
Property for Industry	5.43%	September 2030	4.80%
Infratil	7.08%	March 2031	5.45%
Summerset	5.70%	May 2031	5.10%
Infratil	7.06%	December 2031	5.22%
Infratil	6.16%	June 2032	5.62%
Ryman Healthcare	5.72%	June 2032	5.52%
Oceania Healthcare	5.55%	July 2032	5.40%
NZX	6.80%	June 2033	5.60%
Kiwibank Limited	4.93%	March 2036	5.29%
Genesis Energy	5.66%	June 2052	5.28%
Genesis Energy	6.50%	July 2053	5.40%
Mercury Energy	6.42%	July 2054	5.45%
Chorus	5.90%	June 2056	5.62%

Bank Term Deposit Rates

Here is a list of the bank term deposit rates currently available.

	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ	3.90%	4.30%	4.40%	4.60%	4.70%
ASB	3.90%	4.00%	4.40%	4.60%	4.75%
BNZ	3.90%	4.20%	4.40%	4.60%	4.70%
Heartland	3.90%	4.20%	4.40%	4.60%	4.70%
Kiwibank	3.90%	4.15%	4.40%	4.60%	4.70%
Rabobank	3.95%	4.20%	4.45%	4.65%	4.70%
Westpac	3.90%	4.30%	4.40%	4.60%	4.60%