

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

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Bramwell Brown Limited – Newsletter – July/August 2024

Official Cash Rate

The Reserve Bank's Monetary Policy Committee met on July 10th to review the Official Cash Rate (OCR). Here is some of the summary of their meeting.

“The Monetary Policy Committee discussed recent developments in the domestic and global economies and the implications for monetary policy in New Zealand. Global consumer price inflation has been trending down. This has given some central banks the confidence to either start, or to signal, a gradual reduction in interest rates. Nevertheless, monetary policy remains at restrictive levels in most advanced economies, and the recent stalling in global disinflation has tempered market expectations of the speed of official rate reductions. The Committee noted that global equity prices continue to reflect expectations of a smooth disinflation process. Members discussed risks to this ‘smooth landing’ scenario, noting market pricing of risk could increase materially if these expectations are not met.

The Committee agreed that New Zealand's restrictive monetary policy is reducing domestic demand and consumer price inflation. The Committee is confident that inflation will return to within its 1-3 percent target range over the second half of 2024. Members agreed that there is now more evidence of excess productive capacity emerging, with measures of capacity utilisation and difficulty finding labour easing materially. The Committee noted that recent higher frequency indicators suggest that near-term growth in business activity has weakened. A range of business and consumer surveys, and higher frequency spending and credit data, all point to declining activity. Members discussed the risk that this may indicate that tight monetary policy is feeding through to domestic demand more strongly than expected.

Members discussed progress towards achieving their inflation objective. Headline inflation is expected to return to within the 1 to 3 percent target range in the second half of this year. Domestic inflation measures remain more persistent, but growing excess capacity in the domestic economy provides greater certainty that they will sustainably decline. The Committee discussed the balance of risks to the inflation outlook. Members noted a risk that domestically driven inflation could be more persistent

in the near term. However, there is also a risk that price setting behaviour and inflation expectations could normalise more rapidly as headline inflation declines. The appropriate stance of monetary policy was discussed. The Committee agreed that monetary policy will need to remain restrictive. The extent of this restraint will be tempered over time consistent with the expected decline in inflation pressures. On July 10th, the Committee reached a consensus to maintain the Official Cash Rate at 5.50 percent.”

Although the OCR remains at 5.50%, the commentary would suggest the Reserve Bank will probably cut rates later this year. We have already seen a reduction in some mortgage and term deposit rates, and we have seen a slight increase in the NZ50 Gross Index. For those investors sitting on cash, reluctant to invest in shares, sentiment may be about to change.

Arvida

Arvida has entered into an agreement with Stonepeak BidCo for the sale of 100% of Arvida shares at a price of \$1.70 per share in cash, by means of a scheme of arrangement. The scheme represents a 65% premium to Arvida’s share price of \$1.03 per share. The Scheme is subject to a number of conditions, including New Zealand High Court approval, approval at a special meeting of shareholders of Arvida and consent under the Overseas Investment Act 2005. A special meeting of shareholders to approve the Scheme is expected to be held during the last quarter of this year. Arvida shareholders do not need to take any action at the current time.

Synlait Milk

Synlait Milk shareholders have voted to approve the loan from Bright Dairy, Synlait’s 39.01% shareholder. Bright Dairy will lend Synlait \$130 million, which will be used to repay bank debt. Synlait now plan an equity capital-raising to further strengthen their balance sheet. Holders of the bonds maturing in December will be hopeful that this capital-raising, combined with potential asset sales will mean the company is in a position to repay the bonds in full, on the due date. Although volume is light, the Synlait bonds are currently trading in the secondary market at around seventy-five cents in the dollar.

Melbourne

I will be visiting my daughter in Melbourne this month. I will be away from Friday July 26th until Monday August 5th. Angeline will be available by email and phone through this period. If there is anything you need, please email in the first instance angeline@bramwellbrown.co.nz or phone 3788299.