

Yovich & Co. Market Update

1st July 2023

Yovich & Co's weekly newsletter will now be transitioning to a monthly publication. We appreciate your continued readership and look forward to providing you with comprehensive market insights and investment updates in our upcoming monthly newsletters. If there are notable events, we will provide interim and timelier communication.

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	11880.90	7312.32	3231.41	7562.36	33876.78	13259.14	0.9094	0.6143	5.50%
Week Close	11916.47	7401.54	3202.06	7531.53	34407.60	13787.92	0.9210	0.6111	5.50%
Change	0.30%	1.22%	-0.91%	-0.41%	1.57%	3.99%	1.27%	-0.53%	0.00%

The NZ50G has had a slight increase this month ending up 0.32%, ending the first half year up a modest 3.86%. The US (S&P 500) and Australian markets (S&P ASX 200) both outstripped the NZ market, up 5.18% and 1.58% respectively.

The biggest movers of the month ending 30 th June 2023			
Up		Down	
Vista Group (VGL.nz)	27.21%	Pacific Edge (PEB.nz)	80.67%
Serko (SKO.nz)	22.95%	Ebos (EBO.nz)	11.65%
Arvida (ARV.nz)	12.59%	Freightway (FRW.nz)	8.47%
Vulcan Steel (VSL.nz)	11.85%	A2 Milk (ATM.nz)	6.96%
Summerset (SUM.nz)	7.63%	KMD Brands (KMD.nz)	5.50%

ANZ Business Outlook provides a comprehensive analysis of the economic trajectory expected in the coming 12 months. Catered to business professionals, this publication offers a succinct overview of business confidence, export sales, labour market performance, and other pertinent factors. The latest survey results for June showcased a notable surge of 13 points in business confidence, marking the highest reading since November 2021. Moreover, anticipated “own activity” experienced an 8-point increase, albeit still modest. Nonetheless, this marks the first instance in 14 months where it has entered positive territory. While several sectors and businesses continue to display subdued levels, firms exhibit cautious optimism, suggesting that the worst may be behind us.

In the ANZ-Roy Morgan NZ Consumer Confidence survey, positive outcomes were also observed. Consumer confidence climbed by 6 points in June, reaching a value of 85. Although this figure remains notably low, it represents the highest reading since January of 2022. The proportion of individuals perceiving it as an opportune time to purchase significant household items—an essential retail indicator—rose by 7 points to 27. Additionally, inflation expectations witnessed a sharp decline from 4.8% to 4.3%. While consumers do not have the influence to set prices, their role in wage negotiations makes this a pleasing development from the perspective of the Reserve Bank of New Zealand (RBNZ).

Strong US initial jobless claims exhibited a surprising decline, defying expectations of a continued increase. This positive outcome, coupled with robust US economic data observed in mid-May, as indicated by Citigroup's US Economic Surprise Index, has instilled confidence in the market. Consequently, market participants now believe that the Federal Reserve (Fed) will proceed with its planned additional rate hikes scheduled for late July, following a pause in the previous meeting. This aligns with that of the Reserve Bank of New Zealand (RBNZ).

In response to robust US growth, interest rates in New Zealand have been on an upward trajectory. Notably, the 2-year swap rate surged by 135 basis points, reaching 5.47% in June. Similarly, the 5-year swap rate experienced a significant increase of 163 basis points, reaching 4.69%. Correspondingly, US interest rates also witnessed an upward trend in the previous week. The 2-year Treasury rate rose by 303 basis points to 4.92%, while the 10-year Treasury rate increased by a substantial 607 basis points, reaching 3.88%. Notably, these figures indicate an inverse yield curve, leading investors to anticipate a long-term trend of declining interest rates.

Investment News

Infratil Limited (IFT.nz)

In a recent announcement, Infratil (IFT) disclosed its Share Purchase Plan (SPP) aimed at raising \$850 million through two equity raisings: \$750 million from institutional investors and \$100 million from existing shareholders through a retail offer. The purpose of this funding was to acquire a 49.95% stake in One NZ, effectively increasing its ownership to 99.90%. Under the SPP, new shares were made available at a price of \$9.20, providing investors with the opportunity for arbitrage by selling a portion of their current holdings at a higher price than the SPP offer.

As anticipated, the SPP received strong interest and was heavily subscribed, with a total value of NZ\$320 million (keeping in mind that IFT was initially seeking NZ\$100 million). In light of this, and in a display of good faith, IFT decided to increase the size of the retail offer by NZ\$85 million. In the interest of fairness, scaling measures have been implemented to ensure that each applicant receives shares in proportion to their existing shareholding as of Tuesday, June 6, 2023. Allotment statements are scheduled to be issued on July 4, and refunds for any surplus application amounts will be processed as soon as practicable thereafter.

Current Share Price: \$10.15, Consensus Target Price: \$10.15, Consensus Forecast Dividend Yield: 2.70%

Genesis Energy (GNE080.nz) Considers Green Bond Offer

Genesis Energy has recently announced a bond offer worth NZ\$240 million. The offering consists of unsecured, subordinated green capital bonds carrying a coupon rate of 6.50%, which will be paid on a quarterly basis in January, April, July, and October. The first payment is scheduled for October 10, 2023.

While the bond's maturity date extends to 2053, investors are expected to have the option to redeem their bonds starting from July 10, 2025, in line with a common industry practice. This redemption feature allows bondholders to either sell their bonds at par value (\$1) or have the issuer, Genesis Energy, redeem them. If the bond is not redeemed, the coupon rate will be reset based on the prevailing 5-year swap rate plus a 0.25% margin. S&P Global Ratings is anticipated to assign an issue credit rating of BB+ to the bonds. Notably, the proceeds from this bond offering are specifically earmarked to fund eligible green projects, underscoring Genesis Energy's commitment to environmentally sustainable initiatives.

Current Share Price: \$2.73, Consensus Target Price: \$2.84, Consensus Forecast Dividend Yield: 8.80%

Fonterra Co-operative (FCG.nz)

Fonterra has provided further details on its plan to return approximately \$800 million of capital to shareholders following completion of the sale of Soprole, their Chilean business. The capital return has been brought forward, initially scheduled for October 2023, now set for August 2023. Under the plan, Fonterra will repurchase and cancel one in every six shares owned by shareholders, offering a payment of \$3.00 per cancelled share. Shareholders will also receive additional shares through a subdivision process to maintain their existing shareholding. The capital return is classified as a non-taxable return, and payments to shareholders are expected on August 17, 2023.