

Yovich & Co. Weekly Market Update

7th October 2024

Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 27 th September	12457.41	8476.77	3087.53	8320.76	42313.00	18119.59	0.9186	0.6340	5.25%
Week Close 4 th October	12619.94	8416.58	3336.50	8280.63	42352.75	18137.85	0.9063	0.6170	5.25%
Change	1.30%	-0.71%	8.06%	-0.48%	0.09%	0.10%	-1.34%	-2.69%	0.00%

The New Zealand sharemarket increased by 1.30% over the week, which puts the NZX50 at 7.1% ahead for the year. This increase was amid mixed global sentiment, with New Zealand appearing resilient despite international volatility. ANZ, ASB, and Westpac are now forecasting a 50bps cut to the Official Cash Rate, which will be announced this Wednesday, while some other economists forecasting 25bps.

Australia's All Ordinaries fell by 0.71%, reflecting broader investor concerns about global economic uncertainties, including rising oil prices and heightened geopolitical tensions.

Shanghai Composite saw a sharp increase of 8.06%. This was largely due to investor optimism driven by China's stimulus measures, which attracted investments, especially in the troubled property sector. There is also speculation in the market of another round of stimulus by the Chinese Government, with one commentator suggesting this would be announced after the Golden Week public holiday. This puts the Shanghai Composite index up over 21.93% in the last month.

The UK FTSE index fell by 0.48%, and across the pond, The Dow Jones Industrial Average had a slight gain of 0.09% and the NASDAQ experienced a small increase of 0.10%, managing to stay largely flat for the week.

The NZD/AUD dropped by 1.34%, and NZD/USD declined sharply by 2.69%. This decline reflected a weaker sentiment towards the New Zealand dollar, largely influenced by a stronger US dollar driven by positive economic indicators such as the better-than-expected ISM services PMI data.

Weekly Market Movers

The biggest movers of the Week ending 4 th October 2024			
Up		Down	
Hallenstein Glasson	16.13%	The Warehouse Group	-8.33%
Fletcher Building	12.82%	Fonterra Shareholders' Fund	-5.03%
Scales Corporation	8.99%	Westpac Bank	-4.84%
Freightways	6.56%	Gentrack Group	-3.62%
Sky Network Television	5.38%	Port of Tauranga	-2.92%

Source: Iress

Investment News

Channel Infrastructure

Channel Infrastructure has announced a conditional agreement with Seadra Energy to develop a biorefinery at the site. Under this agreement, Seadra Energy would acquire certain decommissioned hydrocracking assets for USD \$33.875 million. A biorefinery functions much like an oil refinery but uses renewable biomass to produce biofuels, biochemicals, and energy. If the project proceeds, it will utilise some of Channel's decommissioned refinery assets, along with existing tanks, jetties, and 18-20 hectares of land, leveraging the current infrastructure.

Current Share Price: \$1.80 **Consensus Target Price:** \$1.89, **Consensus Forecast Dividend Yield:** 6.1%, **Total Return:** 11.1%

Hallensteins Glassons Limited

Hallenstein Glasson Holdings Limited announced its full-year results for the period ending August 1st, reporting sales of \$435.6 million, a 6.3% increase compared to the previous year. The company also improved its gross margin by 210 basis points, while net profit after tax rose by 14.7%. These results were generally in line with analyst expectations, leading to a share price increase of over 16% last week.

Current Share Price: \$7.12 **Consensus Target Price:** \$7.18, **Consensus Forecast Dividend Yield:** 9.4%, **Total Return:** 10.2%

Infratil Limited

Some recent Jarden research has indicated that Infratil is trading below fair value due to their expanded Canberra Data Centre (CDC) capacity outlook. Infratils latest quarterly independent valuation for its CDC stake indicated a 409MW uplift to the data centres operator's development pipeline out to Financial Year 34 with growth focused in Melbourne and Auckland.

Current Share Price: \$12.16 **Consensus Target Price:** \$12.17, **Consensus Forecast Dividend Yield:** 1.9%, **Total Return:** 2.0%

Spotlight: New Zealand Bond Market Shifts: Navigating the Impact of Falling Interest Rates

Bonds play a crucial role in a diversified investment portfolio, offering a way to manage overall risk, generate income, and provide stability. As a fixed-income instrument, bonds are categorised under 'income assets' alongside cash and deposits. They help balance the higher volatility and potential for greater returns associated with stocks, contributing to a more resilient investment strategy. The bond market in New Zealand has entered a phase of adjustment, with the RBNZ's OCR reductions having significant impacts on yields, investor strategies, and expectations. For investors, there remains value in fixed-income instruments, particularly existing bonds with higher yields, while new issuances continue to be relevant, especially compared to other lower-risk investment options like term deposits.

The Official Cash Rate/Swap Rates and the impact on bond yields:

The Reserve Bank of New Zealand (RBNZ) reduced the Official Cash Rate (OCR) to 5.25% in August, down from 5.50%, marking the first cut since 2020. Economists forecast a drop to 3.25% by mid-2025 if inflation falls within the target range of 1–3%. ANZ, ASB and Westpac predict 125 basis points of cuts by February 2025, including a possible 50 basis point cut in the next OCR review, however, the 1-month bank bill rate is currently 4.99% which may indicate the market is pricing in a 25bps cut.

Swap rates have started to trend downward this year in line with the cut to the OCR. Swap rates represent the benchmark interest rates used to price bonds, with an additional margin set by bond issuers based on various factors such as creditworthiness, bond type, and duration.

Swap	End of March Quarter	End of June Quarter	End of September Quarter
1 Year	5.31%	5.40%	4.07%
2 Year	4.80%	4.96%	3.57%
3 Year	4.51%	4.68%	3.46%
4 Year	4.36%	4.52%	3.48%
5 Year	4.30%	4.46%	3.55%

Source: Iress

We can see from this data that the 1–5-year swap rates have significantly decreased if compared to the previous two quarters. These rates provide an indication of where the market expects interest rates to be in the future. For new bond issuances, the declining swap rates imply that new bonds will likely be issued with lower yields, reflecting the market's reduced expectations for future rates. This can reduce the income generated for investors seeking yield in new investments.

What does this mean for investors?

Existing bonds with higher coupon rates are likely to trade at a premium to their face value (typically issued at \$1.00 per bond), particularly when compared to new bonds with lower yields. This premium is due to the higher returns that investors may achieve from existing bonds, which were issued at a time when interest rates were higher. Bonds remain competitive, especially against term deposits, which are expected to decline alongside OCR cuts, making bonds a potentially better option.

This could be a good time to consider locking in bond yields, as new bond issuances are expected to offer lower returns. You can purchase existing bonds listed on the NZX Debt Markets or by placing a bid on upcoming bond offers.

We will provide updates on new bond offers to all investors subscribed to this newsletter. If you have any questions or would like to discuss this in more detail, please reach out to your Financial Adviser or email us at shares@yovich.co.nz.

Our Current Preferred Fixed Interest Investments:

Code	Description	Bond Type	Quote	Current Price	Coupon	Maturity Date	Assumed Redemption	Yield to Redemption
CEN090.NZ	CEN090 - Contact Energy Ltd green capital bonds 03/10/2054 - 5.67%	Hybrid 5 Year Reset	Yield	5.63%	5.67%	3-Oct-54	3-Oct-29	5.63%
IFTHA.NZ	IFTHA Infratil Limited Infrastructure Bonds - 7.06%	Hybrid 1 Year Reset	Price	\$ 0.645	7.06%	Perpetual	Perpetual	10.95%
WKSHA.NZ	WKSHA 9.43% Works Finance (NZ) Limited Pref Shares	Hybrid 1 Year Reset	Price	\$ 0.998	9.81%	Perpetual	Perpetual	9.83%
WNZHA.NZ	WNZHA 7.10% Westpac New Zealand Limited Preference Shares	Hybrid 5 Year Reset	Price	\$ 1.017	7.10%	Perpetual	Perpetual	6.98%
QHLHA.NZ	QHLHA 6.64%- Quayside Holdings Ltd Preference Shares	Hybrid 3 Year Reset	Price	\$ 0.933	6.64%	Perpetual	Perpetual	7.12%
BNZHA.NZ	BNZHA - 7.30% Bank of New Zealand Preference Shares	Hybrid 5 Year Reset	Price	\$ 1.0300	7.30%	Perpetual	14-Jun-29	6.55%
SUM040.NZ	SUM040 09/03/2029 6.59% Summerset Group Holdings Limited Bonds	Vanilla Note	Yield	5.14%	6.59%	9-Mar-29	9-Mar-29	5.14%
ANBHC.NZ	ANBHC 6.95% - ANZ Bank New Zealand Limited Preference Shares	Hybrid 5 Year Reset	Price	\$ 1.00	6.95%	Perpetual	18-Jul-28	6.92%
GNE080.NZ	GNE080 - 10/07/2053 - 6.50% Genesis Energy Limited (NS) Bonds	Hybrid 5 Year Reset	Yield	5.74%	6.50%	10-Jul-53	10-Jul-28	5.74%
BNZ170.NZ	BNZ170 25/05/2028 - 5.536% Bank of New Zealand Notes	Vanilla Notes	Yield	4.10%	5.536%	25-May-28	25-May-28	4.10%
FBI220.NZ	FBI220 15/03/2028 - 6.5% Fletcher Building Industries Limited Notes	Vanilla Note	Yield	8.40%	6.50%	15-Mar-28	15-Mar-28	8.40%
OCA010.NZ	OCA010 19/10/2027 - 2.30% Oceania Healthcare Limited Bonds	Vanilla Bond	Yield	7.10%	2.30%	19-Oct-27	19-Oct-27	7.10%
CHI020.NZ	CHI020 Channel Infrastructure NZ Limited Bonds - 20/05/2027 - 5.80%	Vanilla Bond	Yield	5.10%	5.80%	20-May-27	20-May-27	5.10%

Upcoming Dividends: 8th October to 8th November.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
Turners Automotive Group	TRA	11-Oct-24	14-Oct-24	8.33cps	30-Oct-24
Bankers Investment Trust	BIT	24-Oct-24	25-Oct-24	1.43cps	08-Nov-24
Southport	SPN	24-Oct-24	25-Oct-24	27.08 cps	08-Nov-24

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