

Yovich & Co. Market Update

13th March 2022

As at 11th March	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	12141.77	7395.31	3447.65	6987.14	33614.80	13313.44	0.9306	0.6858	1.00%
Week Close	11821.38	7339.33	3309.75	7155.64	32944.19	12843.81	0.9330	0.6808	1.00%
Change	-2.64%	-0.76%	-4.00%	2.41%	-1.99%	-3.53%	0.25%	-0.73%	0.00%

Major markets declined over the week, with the Dow and Nasdaq down 1.99% and 3.53% respectively, while the Australian and NZ markets followed suit with declines of 0.76% and 2.64%.

The price of oil has continued to climb, reaching as high as US\$133 per barrel, as the US has now banned imports from Russia. Global investment research company MSCI has announced that it will eliminate Russian equities from its emerging markets index, which will cut Russian stocks off from a large segment of the investment fund industry. ANZ has predicted a very sharp increase in the official cash rate (OCR) of two 50bps hikes by RBNZ over the next two meetings, and short-term interest rates have increased as a result of this prediction. This has provided support for the NZD, which ended the week only slightly down 0.73% against the USD, while the AUD is down 1.06% against the USD, leaving the NZD slightly stronger against the AUD.

The biggest movers of the week ending 11 th March			
Up		Down	
Sanford	3.60%	Vista Group	-9.33%
Westpac	2.18%	Heartland Group Holdings	-8.00%
Port of Tauranga	1.46%	Mainfreight	-7.88%

Market Highlight – Oil Price Hikes

In recent updates, we have discussed rising inflation, which has been further exacerbated by higher oil and gas costs. During the pandemic, the oil price declined as global demand plummeted due to lockdowns, which meant people weren't travelling. As a result, oil producing companies started reducing production to bring the supply down to match the reduced demand. Once restrictions started being lifted around the world, and people started commuting to work again and travelling, demand started to pick back up, while the supply of oil was slow to catch up. This led to the oil price increasing to above pre-pandemic levels, even before the Russian invasion of Ukraine.

Upon the threat of war, the market started to place a risk premium on the price of oil, given that Russia is a major producer of oil. This started the spike in the price of oil as seen in the chart below, which shows the price in USD per barrel of crude oil. The sanctions imposed upon Russia by Western nations have affected the supply of Russian oil, and in the last week the US has banned Russian oil imports altogether. With reduced supply, and continued robust demand for oil, the result is the highest level in oil prices since 2014, reaching a peak of US\$133 per barrel (the chart below only shows the weekly closing prices).



What does this mean for the global economy?

High oil prices affect input costs for business, putting further upward pressure on general prices, which reduces aggregate demand for goods and services in an economy, and the risk is that demand falls enough to cause a recession. Various estimates have the oil price averaging between US\$90-\$130/barrel during 2022, before gradually falling below US\$100/barrel over the next few years.

Back in 2011, the oil price increased to over US\$110/barrel, and stayed that high until the end of 2014, without causing a recession. Prices would have to go higher and remain very high to cause a recession.

Which companies will benefit?

With European countries looking to diversify away from importing Russian oil and gas, other more secure sources will be needed. This will benefit Australian oil and gas producers, in particular **Woodside Petroleum (WPL.ASX)** and **Santos (STO.ASX)**. Both of these companies' share prices are highly correlated with the price of oil, and as such their share prices have already increased with the price of oil in recent days. (WPL Current Share Price \$31.98, Consensus Target Price \$31.35; STO Current Share Price \$7.57, Consensus Target Price \$8.89).

Where their share prices go from here depends a lot on investors' views on whether oil prices remain high, and for how long. If you as an investor think the ship has sailed on oil-related investments and you believe that oil will soon drop in price, then you may be interested in a US exchange traded fund called '[ProShares UltraShort Bloomberg Crude Oil ETF](#)'. The aim of the fund is to seek investment returns that correspond to the inverse of the crude oil price. Such an investment is not for the faint-hearted however, and is generally used by investors seeking short-term profits from a market decline, or to hedge against an expected decline.

Investment News

Vodafone NZ Looks to Sell Mobile Towers

Vodafone NZ, which is half owned by infrastructure investor Infratil (IFT.NZ), is seeking a buyer for its mobile towers, aiming to free up capital for its business and shareholders. The company has nearly 1,500 mobile towers across New Zealand that can provide mobile phone coverage to about 98% of the country. Competitor Spark NZ is also trying to sell a stake in its mobile towers, a trend which has become increasingly common as telecommunications companies look to unlock value that can be reinvested.

IFT.NZ Current Share Price: \$8.04, Consensus Target Price: \$8.64

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Asset Plus Limited (APL.NZ) Cuts Dividend – Forecasts No Fourth Quarter Dividend

Asset Plus has announced a dividend for the quarter of 0.294 cents per share, which represents 50% of the historical dividend level post the September 2020 capital raising. Leasing commitments for 35 Graham Street and the balance of Munroe Lane are still to be secured, and the Board views it as prudent to retain capital in order to fund the redevelopment of 35 Graham Street, rather than utilising available capital to maintain the previous dividend payout. As a result, it is currently anticipated that there will also be no fourth quarter dividend. The company's dividend policy is also currently being reviewed.

Current Share Price: \$0.265, **Consensus Target Price:** \$0.35

Mainfreight (MFT.NZ) Suspends Services Into and Out of Russia

Mainfreight has advised that their logistics services into and out of Russia have been suspended with immediate effect. The company's Ukraine office has been closed as a result of the current conflict, and the company notes that their people are safe and those wanting to leave the country are being assisted with transport and relocation into their other European operations.

Current Share Price: \$76.45, **Consensus Target Price:** \$104.15