HUGO*vision*

Assessing the economic and political environment in New Zealand

January 22 2016 | Confidential to HUGO members

2016 – off to a wobbly start
Pages 4, 5, &6

The next few months will test both the govt's and opposition parties' capacity to read the economic runes. Local data remain strong, even if inflation is lower than it should be, but the global economy looks suddenly far more fragile again, prompting new 'crisis' talk.

The political year ahead
Page 2

National needs to reinvigorate and demonstrate it has the mojo and ideas for a fourth electoral term, but the far greater political challenge is on the left. Labour settled down under Andrew Little in 2015. In 2016, it needs to re-establish what it stands for with a refreshed policy platform. Without that, 2017 will be a difficult election year for Little.

Old campaigners look to another term
Page 3

A mark of the growing sense among National MPs of the potential for a fourth term is the likely postponement of retirement announcements by some of its most experienced hands. Bill English, long tipped to go in 2017, now looks almost certain to throw in his lot for the 2017-2020 term.

Global gloom
Page 4

The bears are in the ascendant at the Davos World Economic Forum and elsewhere, with a growing chorus of commentary about the potential for global economic imbalances to spill over into the next chapter of the GFC. We say that's over-blown, but must be watched closely. The post-GFC experiment in money-printing has a way to run yet.

Is inflation-targeting dead?
Page 5

NZ experienced a 0.5% drop in consumer prices in the last quarter of 2015, although that deflation was accompanied by a solid improvement in economic sentiment. We raise our GDP forecasts for NZ in 2016 and, for now, expect the RBNZ to hold the OCR at 2.5%. Statements in the next fortnight, however, will be a litmus test of Graeme Wheeler's resolve.

Trust – some good and bad news
Page 6

Transparency International will next week publish its annual anti-corruption index and NZ will have slipped a few notches. Another annual global survey of trust shows corporates performing better, but the trust gap between an informed 'elite' and the general public is growing wider.

Tiwai Point – looking safer
Page 3

Hydro lakes look full for this time of year and, by some estimates, the Tiwai Point aluminium smelter is breaking even. 2016 may be a more settled year to the electricity industry.

Text finalised January 22

2016 – Labour needs policy, National needs vigour

The phony war between the parties last year will be replaced this year by an urgent need on the part of Labour, in particular, to articulate a credible, differentiated economic and social policy platform before the end of the year, and for National to get its mojo back.

Labour's finance spokesman, Grant Robertson, has been slow out of the blocks and attracted growing criticism last year for apparently failing to get to grips with the unfamiliar detail of the finance portfolio and for leading a well-intentioned but, to this point, bland and predictable attempt to examine the "future of work".

Claiming now to have got over the fact he lost the 2014 leadership battle to Andrew Little, Robertson has been in Paris at an OECD conference on future work trends, including the ubiquitous topic of automation reaching into the white collar workforce, and in the UK, communing with UK Labour in policy forums. He's warning to expect "some radical changes" in Labour's economic positioning.

Our guess is that **Robertson is becoming increasingly confident to consider tax system changes** that favour taxing accumulated wealth harder while relieving the tax burden on labour, based on the argument that if work is getting scarcer, it shouldn't be discouraged by increasingly onerous tax liabilities. If he can get the positioning right, Labour may be able to reposition tax reform as a response to inequality without walking straight into the electoral no-man's land of a capital gains tax.

The most-cited policies are linked to retraining and work transition measures, such as the Danish 'flexi-security' programme, that generously pays out to workers who lose their jobs. There is less **enthusiasm for the Finns' intended 'universal basic income"**, advocated here by Gareth Morgan as 'the Big Kahuna' and last tried in 1987 by Roger Douglas in the ill-fated flat tax package, which included a Guaranteed Minimum Family Income akin to a UBI. **The concept is attractive to Greens' co-leader James Shaw,** but the party is cautious about going out on any new limbs in economic policy.

Conventional wisdom among the Greens' upper echelon is that Russel Norman did incalculable harm by advocating QE as a response appropriate for NZ after the GFC.

While Robertson gropes towards a re-articulation in more future-cast terms of the motivations for some of his predecessors', David Cunliffe's and David Parker's least popular policies, National will dust off its scariest lines about a tax hiking govt of the left.

As to its own platform, National appeared tired and short a fresh agenda at the end of last year. The Budget Policy Statement felt old-fashioned for its promise of income tax cuts in 2017, although they do look affordable and would hardly be unpopular. What they lack is imagination and an appreciation for the emerging impulse in politics for a less unequal distribution of wealth and opportunity than has emerged from 30 years of so-called 'neo-liberal' economic policies.

We may be wrong, but the rise of the harder left in the UK and the protectionist right in the US and Europe may prove over time to be the harbinger of a major shift in developed economy political sentiment to leaven economic rationalism with attempts to unmake the resulting inequality.

The Parliamentary Year Ahead

John Key will open the parliamentary year on Feb 9 with the Prime Minister's statement to Parliament, but the political year starts in earnest next week with a slew of State of the Nation speeches. Key will speak in Auckland on Jan 27. We expect new detail on willingness to prime the pump with **further capex for public infrastructure.** Greens co-leader Metiria Turei and NZ First's Winston Peters both get in early, on Jan 26. Turei says she will announce new policy that sounds like a 'truth in advertising' initiative for political party campaigns to ensure elections are based on "unbiased facts and not spin". Good luck with that.

In Parliament, the early part of the year will be dominated by debate about RMA reform and the passage of the TPP.

RMA

The Resource Legislation Reform Bill was introduced and sent to select committee before the House rose last year with support of the Maori Party and Labour. There is **broad support for measures to streamline and lower the cost of resource consenting**, but there will be devil in the detail. The Local Govt and Environment select committee is taking **submissions until March 14 with a report back due by June 3.**

National's job is also made difficult in that it has already lost the support of its usual allies – ACT's David Seymour and United Future's Peter Dunne. Seymour sees the RMA as regulation gone mad, while Dunne is furious about the drafting process and is dismissive of the bill itself.

TPP

Parliament cannot stop the govt signing a treaty and legislative changes required by the TPP are limited to areas such as tariff reductions and stronger copyright provisions. However, the **National Interest Analysis,** due for release after the signing ceremony involving the 12 member countries' trade ministers in Auckland on Feb 4, will trigger a select committee inquiry and reportback. A national roadshow to ramp the deal is also planned. However, **while the pressure will appear to be on National in this process, the heat on Labour is greater. National can reduce the debate to a simple "better in or out" question**, with its own polling showing a clear preference for "in". If Labour appears to be squandering a major international trade opportunity, it risks not being taken seriously as a govt in waiting. The issue is deeply divisive within the party. The Labour left doesn't want a bar of it, Labour's right and a chunk of the parliamentary wing struggle to see how rejecting globalisation squares with a 'progressive' agenda.

General legislative business

Despite a relatively light legislative load in 2015, the govt did not make as much progress as it hoped. Ministers should **finalise 2016 legislative priorities in early February.** Anything which may help with housing supply and housing affordability will get a high priority. A large number of bills were reported back from select committee before Christmas and more are due in the first months of 2016. The **Residential Tenancies Amendment Bill** will see debate on housing quality, as well as cost.

Members' Bills

Generally only useful to embarrass a govt or for votes on conscience issues, members' bills are prioritised by advancing the bill furthest through the legislative process. This means there will not be many new bills dealt with this year as several bills were reported back from select committee late last year. Of these, a **Labour bill to extend paid parental leave is worth watching.** National may need to use its financial veto right to prevent its progress.

By-elections

So far, the most likely by-election prospect is for the **Mt Roskill** electorate, if sitting Labour MP Phil Goff wins the Auckland mayoralty in November. On the surface it is a safe Labour seat, but the party vote versus electorate vote shares imply much of that support is personal to Goff. It is unlikely Labour would lose the seat, but National would try hard to take it.

Bill English looks to another term?

When Bill English opted out of his Dipton seat and stood only on National's list at the last election, it looked as if he was getting ready to quit politics. But that may have changed. He is buoyed by the success of his social investment approach to social spending which he says has already saved $1b but more importantly sees National talking daily to many in the non-governmental social sector who traditionally have been Labour supporters.

English believes he is winning them over. "At least they are no longer attacking us," he says. Something similar happened in the mid-1990s when, as Health Minister, English surprised such traditionally unionised and anti-National groups as nurses with an innovative approach to the portfolio that made sense to them.

He thinks the social investment programme can add 2-3% to National's vote at the next election. That is convincing his colleagues that the party can win a fourth term and that therefore it might be worthwhile staying on. He's not saying what he will do but he's not making any references to the fact that the next election will lead to his 10th term in the House and make him (possibly) the second longest serving MP there after Peter Dunne. There may well be considerably more political life in the Finance Minister yet.

Electricity sector

The Tiwai Point aluminium smelter is probably slightly casflow positive at present, thanks to low alumina input prices and the weak NZ dollar, neither of which is likely to strengthen. A First NZ Capital analysis of the smelter's prospects suggests it would continue to generate positive cashflow even with the scheduled increase in price for 172MW of its 572MW load. That suggests a calmer year for sector than 2015.

Coleman's ambitions

If English does stay on that will put paid to one of Jonathan Coleman's ambitions, which is to be Finance Minister. As well as being a GP, he has a London Business School MBA and worked for PWC. That may leave him with Foreign Minister after the election if National wins and, as looks highly likely, Murray McCully retires. Coleman needs a high profile top Ministry if he is to continue his path to a leadership position within National. He has some very high powered support, like former leader Jim McLay, and he is highly thought of within the caucus. However, he has virtually no public recognition. He remains best-known to the casual observer of politics as the Health Minister who once joined the tobacco lobby in a corporate box for a U2 concert, where he smoked a cigar. That was a decade ago, but very little has been seen of him by the general public since. While it is generally counted a success for the Health Minister to keep the sector out of the news, budget pressures are finally starting to bear sufficiently that the quiet life may not be so easily accomplished this year.

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January 22 2016

INTERNATIONAL ECONOMY

Gloom settles over Davos

If the annual World Economic Forum gathering in Davos, Switzerland, is anything to go by, the combination of slumping equities, and commodity markets since New Year and increasing speculation about another financial crisis in 2016, is already taking its toll.

A PWC poll of 1,409 CEOs in 83 countries found 27% expect global economic growth to improve in 2016, compared with 37% for the 2015 poll and 44% in 2015. Hardly apocalyptic, and consistent with a slower China, along with another cut from the IMF in its growth forecast for 2016 to 3.4%, compared with 3.6% at the previous fix.

However, doomsayers are on the rise, based in large part on the absence of exit strategies from quantitative easing and oil prices so low that they must be a portent of global economic weakness as well as over-supply. China's 6.8% annual growth statistics, slightly weaker than expected, have reignited talk about the extent to which official figures from Beijing are trustworthy.

Meanwhile, on the sidelines of the Davos meeting, the chairman of the OECD's review committee and former chief economist at the BIS, William White, was reported by the Daily Telegraph as predicting a wave of debt defaults in "the next recession".

"The situation is worse than it was in 2007," White said. "Our macro-economic ammunition to fight downturns is essentially all used up. The only question is whether we are able to look reality in the eye and face what is coming in an orderly fashion or or whether it will be disorderly."

He points particularly to the potential for turmoil in emerging markets, which were part of the answer to the GFC and are now, he says, part of the problem.

His comments echo the widely reported letter to fund members from Nevsky Capital's Martin Taylor, who has chosen to close his consistently successful hedge fund rather than face volatility he sees emerging in global markets. Over-dependence on China and India, untrustworthy official statistics, and less accurate pricing caused by algorithmic trading add up to a greater risk of "sudden sharp shifts in prices".

Andrew Hunt, a global analyst who addressed The Hugo Group at last year's five year forecasts, notes that the Chinese central bank has joined its European and Japanese counterparts in quantitative easing, but that much of the resulting credit growth is funded by banks issuing state-backed bills, over which the central bank has no effective control.

However, set against this is ongoing evidence of strength in the US jobs market and the greatly strengthened balance sheets of global banks following the capital adequacy ratio changes required by the 2008 GFC.

Financial Times columnist Martin Wolf notes also that the world economy has grown in every year since WW2, including the post-GFC years.

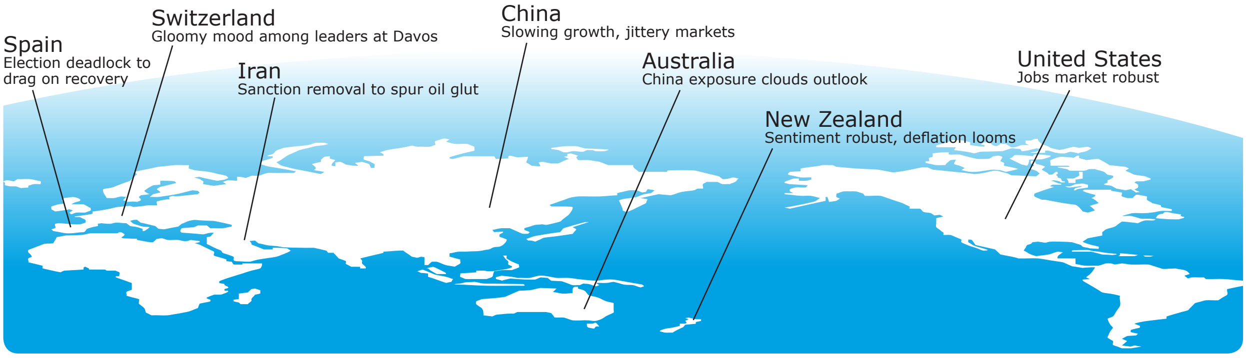
While financial crisis caused by emerging markets is "ceaselessly promoted", Wolf suggests "these risks are likely to be contained or prove manageable at the global level. If the worst came to the worst, the results are likely to be more like those of 1998 than of 2009."

In a NZ context, sound banks and fiscal settings, positive growth in jobs and the economy, and the automatic stabiliser of a lower exchange rate all point at least to an ongoing capacity to weather any storms that do arise.

Oil prices

The US Energy Information Administration says oil will average US$40 a barrel in 2016 and US$50 in 2017. Rival forecasts range between US$25/b and US$56/b in the near term, with inventories of both crude and finished product continuing to build.

The world at a glance



Does monetary policy work anymore?

That's the question that Opposition political parties will increasingly ask as they cast about for bad economic news and latch onto the deflationary December quarter CPI figures for evidence of trouble in the NZ economy.

We expect the political pressure on the Reserve Bank to ease interest rates further will increase, but whether it will act is another matter. We now expect annual CPI inflation to be 0.3% in Q1 of 2016, 0.5% in Q2 and 0.7% in Q3, driven by plunging commodity prices.

That's despite an anticipated further fall in the USD/NZD exchange rate to around US60 cents by mid-year. Domestic competition, technology impacts and global over-supply all appear to be conspiring against a pass-through to consumers of depreciation effects on the price of imported goods.

However, house price inflation is becoming more broadly visible in the latest REINZ figures, and we believe more strongly than many in the market at present that the RBNZ will sit pat at 2.5% for the time being.

That makes next Thursday's OCR update – a single page statement rather than a full MPS – important, along with Graeme Wheeler's Christchurch speech the following week. Either Wheeler will reiterate his Dec MPS talk of flexible inflation targeting, reinforcing a steady policy rate outlook, or signals that he is once again getting nervous, opening the door to further OCR easing.

Growth looks robust in 2016

Despite the pessimism sluicing through global financial markets at present, the outlook for NZ this year actually looks a little stronger than it did late last year. Notwithstanding the political challenge of running that line (*see Politics and Policy*), growth of 2.4% looks to be in prospect this year, up from our previous forecast of 1.9%. The same 2.4% rate is also now expected in 2017, compared with 2% previously.

A big part of that upgrade is driven by the larger than expected net immigration cycle, which is feeding population growth. We now see much less of a slowdown in consumer spending over the next two years. Migration will also underpin construction.

NZ's capacity to manage emerging risks, whether on the downside with respect to global impacts or upside driven by local factors, is judged to have become, if anything, stronger in recent times. Take, for example, the forecast for the current account deficit, which has improved. It's now forecast to peak at a manageable 4% of GDP.

Employment

Confidence indices show little expectation among wage and salary earners of pay increases in the year ahead, despite employees becoming a little more confident about their job security. The Westpac McDermott-Miller employment confidence index rose 2.2 points to 101.5 in Dec, gaining from the three-year low it reached in the Sept quarter.

Trading partner growth

(2014 actual; 2015-16 Concensus Forecasts; 2017-18 figures Hugo estimates)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	**2014**	**2015**	**2016**	**2017**	**2018**	**2014**	**2015**	**2016**	**2017**	**2018**
China	21.0	7.3	6.9	6.5	6.3	6.5	2.0	1.4	1.6	1.7	1.7
Australia	21.2	2.6	2.3	2.6	2.9	2.6	2.5	1.5	2.3	2.6	2.2
United States	14.5	2.4	2.4	2.4	2.5	2.4	1.6	0.1	1.5	2.3	2.2
Japan	7.6	-0.1	0.6	1.2	0.6	1.0	2.7	0.7	0.6	2.0	1.5
Eurozone	7.3	0.9	1.5	1.7	1.7	1.6	0.4	0.0	0.8	1.5	1.5
United Kingdom	4.0	2.9	2.3	2.3	2.3	2.2	1.5	0.0	1.0	1.8	2.0
South Korea	4.2	3.3	2.6	2.8	2.9	2.9	1.3	0.7	1.4	2.0	2.0
Indonesia	2.1	5.0	4.7	4.9	5.2	5.0	6.4	6.4	4.7	4.8	5.0
Hong Kong	1.9	2.5	2.4	2.0	2.2	2.3	4.4	3.0	2.5	2.3	2.5
Taiwan	2.8	3.9	1.0	2.0	2.6	2.4	1.2	-0.3	1.0	1.2	1.5
Singapore	2.7	2.9	2.0	2.1	2.5	2.4	1.0	-0.5	0.6	1.5	1.5
Malaysia	2.5	6.0	4.8	4.4	4.6	5.0	3.1	2.1	3.0	2.6	2.7
Philippines	1.7	6.1	5.6	5.8	5.9	5.4	4.1	1.4	2.4	2.9	2.7
Thailand	2.0	0.9	2.7	3.1	3.3	2.5	1.9	-0.9	1.2	2.0	2.0
India	1.6	7.3	7.4	7.8	7.7	7.3	6.0	5.0	5.3	5.3	5.4
Vietnam	1.3	6.0	6.6	6.5	6.5	6.4	4.1	0.7	3.5	5.0	3.3
Canada	1.6	2.5	1.2	1.7	2.2	1.9	1.9	1.1	1.8	2.0	2.0
NZ Trading Partners	100	3.6	3.4	3.5	3.5	3.4	2.2	1.0	1.7	2.2	2.1
Forecasts for New Zealand											
Consensus		3.7	2.3	2.3	2.6	2.7	1.2	0.4	1.5	1.9	2.0
BNZ Forecasts		3.7	2.4	2.4	2.5	2.4	1.2	0.4	1.4	2.2	1.8
The World		2.8	2.6	2.7	3.0	2.9	2.6	2.1	2.6	2.8	2.6

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Growing importance of the OECD

Inland Revenue has been the govt agency seen to work most closely with the OECD over tax base erosion and profit shifting issues. As the IRD tries to deal with global companies able to choose their tax jurisdiction, NZ has become more involved in OECD policy-making on tax. For example, John Nash, Manager – International Revenue Strategy, Inland Revenue, is currently chairing an OECD expert group looking at aggressive taxation regimes.

Though Communications Minister Amy Adams has set out a comprehensive public consultation programme in her review of the 2001 Telecommunications Act it looks like she will go down the same path as IRD. The issues involved in internet regulation, in particular, are too complex for any country to embark on unilaterally. But this may also influence the way telecommunications pricing is regulated. It is likely the current regime will be simplified and brought more in line with prevailing practices in other OECD countries. A regime more akin to the regulation of other utilities with monopoly characteristics, like electricity, is also being examined for lessons relevant to the telco sector.

Economic headwinds yet to hit NZ mood

The disastrous start on international financial markets to the new financial year has yet to show up in any of the recent slew of economic confidence indicators, which showed a more buoyant end to 2015. However, the weak start to the year in the two GlobalDairyTrade auctions held so far a**lmost certainly means a downgraded Fonterra payout is on the way.** Open Country Dairy has already dropped its forecast by 30c per kg/MS to between $4 and $4.30. Fonterra is currently forecasting a payout of $4.60kg/MS, but several forecasters this week dropped their expectations to payouts as low as $4.10kg/MS. While the weaker kiwi dollar is providing the expected export competitiveness offset, and the tourism industry is booming, weaker dairy prices and the slump in oil prices can be expected to have significant regional effects. **The prospects for Taranaki, in particular, are weak** for the year ahead, with small-scale oil producers under pressure.

Trust – NZ slipping, corporates/ online media rising

Next week's global corruption index from Transparency International is expected to see NZ slip several notches. Whether that's because of events at home or improved performance elsewhere has yet to be seen, but it **will be an embarrassing wake-up call for a country that tends to take its corruption-free reputation for granted**.

Meanwhile, global PR firm Edelman has released its 2016 Trust Barometer, a global measure of changing opinions by the general public and opinion-formers in a range of countries. Sadly, NZ is not among them but the trends can be extrapolated to a NZ context. The latest barometer finds **trust in corporates rising on a global level, although suffering in Australia**. It finds business is closing in on NGOs' "long-held lead" in trust, where media and govt remains relatively weak.

Media reputation is being held up by a surge in trust for online-only media, at 58%, on par with traditional media, among so-called 'millennials'. Online media has been on an uptrend in the last five annual surveys, while traditional media are sliding quietly. Among all age groups, trad media is still five points ahead of online media, which scored 53%. Search engines remain the most trusted media source for information, at 63% for all age groups and 68% for millennials.

Among the general population, however, trust in friends and family as a source of information leapt from 67% in the 2015 survey to 78% in the latest, accompanied **by a 10 point jump in trust for the word of ceo's, from 39% to 49% between the 2015 and 2016 reports.** The latest report, however, finds that half of those polled were unable to name a single ceo of any company and a growing gap between the trust levels of the "informed elite" and the general public. The days of elites at the top, spreading their wisdom to the masses, are ending.

It notes **"peer-to-peer influence" is now more powerful than top-down**; that there is "increasing distrust among mass population"; and that this is spurring **"mass movements based on dissatisfaction and urgency"**. Three key influences are identified as causing this trend, none of which corporate leaders can ignore. These are:

- Democratisation of information and more information;
- High profile "revelations of greed and misbehaviour"; and
- Income inequality

These trends are most marked among younger people, as seen by the surprisingly strong showing in political polling by more elderly leaders of the left in the UK and US: UK Labour's Jeremy Corbyn and Democratic nomination hopeful Bernie Sanders.

Consultations of current interest

- **Commerce Commission:** review of Milk Price calculation for 2015/16 – submissions due Feb 5; input methodologies review – draft decision and reasons due June; mobile termination access service – submissions due Feb 5; emerging technology in the energy sector – submissions due Feb 4.
- **Ministry for the Environment:** ETS review. Submissions on priority issues due Feb 19 and on 'other matters' by April 30. Priority matters are moving to and managing the cost of moving to full surrender of obligations.
- **National Environment Standards and National Policy Statements.** Several are in development. Freshwater reform – options paper for regulation for public consultation due early 2016 following pre-Xmas announcements. Other NES's and NPSs due for completion this year: urban development; pest control/ eradication; air, incorporating new findings on air pollution health impacts; aquaculture. Bio-diversity NPS due for completion this or next year. Standards for natural hazards management and soil contaminants due for completion 2017/18.
- **Ministry for Primary Industries:** NES on plantation forestry. Submissions published Jan 18.
- **Productivity Commission:** urban planning – submissions on issues paper due March 9, draft report mid-July, final report by Nov 30. This review will cover effects of the RMA, Local Govt Act, Land Transport Management Act, Reserves Act and Conservation Act on the availability of urban land for development. Follows the completed "using land for housing" report. New models of tertiary education – issues paper due Feb 2016, final report due Feb 28 2017. An inquiry considering "how NZ's institutional and policy settings help or hinder the adoption of new models of tertiary education".
- **Electricity Authority:** implications of evolving technologies for the pricing of distribution services. Submissions due Feb 2. Transmission pricing methodology – some reports suggest decisions in early 2016 to this long-vexed policy question.
- **Ministry of Transport:** small passenger service vehicle review – submissions due Feb 12. Particularly affects taxi industry and ride-sharing apps such as Uber. Vehicle dimensions and mass review – submissions due Feb 17. Balancing transport sector efficiency gains with road safety and infrastructure costs.
- **Inland Revenue Dept** – consultation on simplifying the Tax Administration Act. Submissions due Feb 12.

Foreign direct investment

Shanghai Pengxin continues to make clear its displeasure with the govt's rejection last year of its $88m bid for Lochinver Station. It has cancelled the associated purchase of adjoining properties that were in financial difficulty, but which SP had thought could be made profitable in concert with Lochinver. It also appears that local managing director **Gary Romano** has resigned. Romano was traveling offshore this week and did not return calls for comment, but Companies Office records show he resigned directorships of Pengxin-related NZ entities last November.

Housing supply

Progress towards meeting housing demand in Auckland remains too slow to suggest the issue is on the way to resolution, notwithstanding the evidence that residential property investors are shifting their interest to surrounding regions. Building consents issued in November were up just 1.8% on the same month a year earlier and Auckland consents were static. The Massey University h**ousing affordability index showed a 1.4% improvement in the relative affordability of Auckland homes** vs the rest of the country in the Dec ¼, although they remain 59% less affordable than the national average. Rating agency Fitch expects Auckland house prices to keep rising in 2016, but at a "more modest level" of around 4%, with affordability now close to "unsustainable" levels, and NZ described as the world's most expensive country for housing relative to incomes.

REINZ figures for Dec showed a less active Auckland market, with sales volumes down and the rate of annual increase in the Auckland median falling to 13.4%, compared with almost 25% in mid-2015.

Financial services

Forex trader **Direct FX** is considering cancelling its Derivatives Issuer Licence following a temporary breach of the terms requiring it to hold more than $1m in net tangible assets at all times – a breach identified in the operations of three of the 12 non-bank licenced derivatives issuers regulated by the **Financial Markets Authority**. Direct FX required the licence in order to service the requirements of a small number of clients and may cancel the authority rather than tangle further with the compliance requirements. **SBS Bank** has made chief risk and innovation officer, Mark McLean, interim ceo after the death of 49 y.o. ceo Wayne Evans on Jan 6.

Aviation

Trans-Tasman competition is heating up again, with **Air Asia** starting a new service from Manila through Cairns and on to Auckland, while **Singapore International Airlines** has announced direct flights between Wellington and Canberra as an adjunct to its new direct Singapore-Canberra service. The short-haul trans-Tasman service is seen as SIA preferring not to pay fees for keeping a plane on the ground in Canberra rather than a long term vote of confidence in a direct connection between the two capital cities. The SPR-CBR route is the first long-haul service into Canberra from anywhere. **Wellington City Council is committing $800,000 p.a. for 10 years to the new service, which it claims as a proof-point for its long-haul ambitions and an extended runway. Ministerial enthusiasm for govt part-funding the $350m project remains nil**. The extension is required to allow long-haul flights, with heavier payloads, to make the journey to Wellington and not all modern wide-bodied jets are able to land at the current runway, even with lighter payloads. Meanwhile, a First NZ Capital research note on **Virgin Australia,** 25.9% owned by Air NZ, says the airline remains poorly capitalised and has limited capacity for a capital return to shareholders.

NZX

Last year's dearth of new listings looks likely to continue this year. Among those floats being touted are some that failed to get away in 2015, including Hirepool , Tegel and Carter Holt. The new NXT market continues to struggle to attract attention, with some evidence crowd-funding equity is preferred. Private capital remains active. A **new $30m fun**d involving Taiwanese investors, and supported by **$11m from govt-backed NZ Venture Investment Fund,** has been announced.

Meanwhile, NZX has had a limited number of submissions on its review of the Listing Rules. **Z Energy** released its submission publicly as it seeks to position itself as a socially responsible corporate citizen, seeking more detailed disclosure on **workplace diversity, health and safety performance, sustainability measures and executive pay**. NZX appears reluctant to impose a wide range of new mandatory disclosures on listed companies in areas that investors may not necessarily regard as universally important. **NZX appears likely to favour mandating a range of internationally acknowledged measures that listed companies may then choose to report against**, if they judge the measures would be important to their investors.

Meat industry

Export shipments of beef and sheepmeat grew strongly by volume in the first quarter of the 2015/16 export season (Dec 1/4 2015), but prices slipped. Beef prices were off 1% compared with the pcp, while mutton was hit most, down 6.5%.

Forest products

Oji Group is to consolidate is sawmilling and timber drying operations in Milton and Milburn on a single site a Milburn where it will spend $23m on new facilities to take annual processing of pine products from 50,000 cubic metres to 100,000 metres for further expansion. The Oji purchase is through its Whirinaki-based Pan Pac subsidiary.

Electric vehicles

Plug-in electric vehicles have substantially lower CO2 emissions over the full life-cycle of the car than conventional internal combustion engine vehicles in the NZ context, says a report prepared for EECA. Any increase in renewable electricity as a proportion of total production would improve that performance, although the additional weight and battery manufacturing required for EVs means their life cycle performance and eco-toxicity performance is less impressive. The report dispels a common misconception that EV batteries use substantial quantities of rare earth metals, although it does note that including gold in lithium-ion battery manufacture appears to be a viable technology for extending battery efficiency.

Wine industry

NZ exports rose 8.5% by volume and 13.1% by value in the first ten months of 2015, according to Rabobank. Inventories were depleted quickly following the light 2015 harvest. Average export prices have edged up in all major markets since the 2015 harvest. Global wine production is estimated to have risen 2% in 2015, although Italian, Spanish and US volumes are all thought to have declined. A freely floating **Argentine** currency, following election of a new govt, is expected to boost that country's wine industry in export markets.

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