HUGOvision

Assessing the economic and political environment in New Zealand

April 1 2016 | Confidential to HUGO members

Working with Winston

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Both the National and Labour parties are beginning to focus on how to approach the knotty problem of NZ First's increasingly entrenched position in the polls as a 'kingmaker' at the next election. For its part, NZ First is highly focused on pulling votes from National's provincial base, where it expects discontent in the agricultural sector will yield it fresh support.

Big announcements due on vulnerable children

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The Child Youth and Family Service has been reviewed 14 times in its 27 years of existence, but reforms next week are expected to be more wide-reaching than any previous efforts to improve the lot of vulnerable children. Bill English's 'investment approach' will be to the fore. The announcements coincide with benefit increases announced in the 2015 Budget.

Who is Labour's audience?

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The Labour Party's Future of Work conference was marked by untidy political management. While its intention of 'turning the policy-making process inside out' and fostering debate could be bold, it proved problematic in practice. Party leaders spent more time denying ideas such as the Universal Basic Income were party policy than debating its potential. On the conference floor, the party seemed still to be talking to itself rather than a wider constituency.

Cautious approach to h&s prosecutions

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Workplace Relations and Safety Minister Michael Woodhouse has signalled to National Party backbenchers concerned that the new health and safety regime will be a compliance nightmare for many businesses that he does not expect Worksafe NZ to prosecute any but the most serious breaches for at least the first six month's of the new regime's operation.

The kiwi stays stubbornly high

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Inflation expectations did not fall as much as expected in this week's ANZ Business Outlook, reducing the case for another OCR cut in the near future. However, the persistent strength of the kiwi dollar may yet force the RBNZ's hand at its April 28 review.

Hawaiki trans-Pacific cable construction starts

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A contract to construct a new 14,000km submarine cable that will compete with the Southern Cross cable has commenced, it was announced this morning. The trans-Pacific cable will link Aust and NZ to the US West Coast, Hawaii, with options to expand to several South Pacific islands and is due for completion by mid-2018.

Holidays Act headache

It is extremely difficult to get a clear handle on the extent of potential underpayment of holiday pay entitlements, but the reports of Holidays Act compliance problems are mounting, with a risk for some organisations that top-ups dating back several years, including to long-departed staff, may be required. **We are hearing that many large organisations are undertaking urgent checks.**

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Contact: hugo@thehugogroup.com.

POLITICS AND POLICY

Major CYFS reforms next week

The govt will next week announce far-reaching reform of the Child, Youth and Family Service (CYFS). This will see Bill English's 'investment approach' to govt policy applied to vulnerable children, a policy area where the govt is both under pressure and also promised action after the 2014 election.

The announcements coincide with increases to social welfare benefit payments – the first in real terms since 1974 – announced in last year's Budget, from April 1. It also follows important announcements last week about the release of state houses to ownership by NGO **social housing providers in Tauranga and Otago.** Between 1,000 to 2,000 Housing NZ Corp houses and tenancies are line for transfer to registered Community Housing Providers.

So far, so much for the rhetoric that only foreign providers would have the means to participate or that local social housing providers would resist the opportunity. English's 'radical incrementalism' experiment in social policy continues. The HCNZ development is the product of a quiet six year revolution in the provision of state-assisted housing to some of the most disadvantaged groups in society and a wider push by English to force govt agencies to share data on people in need better in the 'big data' age. English is sufficiently certain now that the investment approach can be made to work for change in the provision of unsuccessful govt services to bring it to **CYFS. The service has been reviewed no less than 14 times since it was first established in 1989,** late in the Lange govt's second term. Behind the scenes, it is being touted as "the first opportunity for reform of CYFS without a crisis". That reflects the fact that there is now a framework for thinking about now to deal with the long-observed problem with acute social services: that those whom they exist to serve – in this case, insufficiently loved and cared for children – have too often too small a voice in the process.

Of course, **whether it will all work is another matter.** But the key to the changes English is overseeing is that they are evidence rather than theory-based to a greater extent than in the past. So far, the process of creating audacious targets for govt actions is having a demonstrably focussing effect on the efforts of govt agencies. DPB rates are down dramatically, rates of secondary school completion to NCEA2 are up dramatically, and while it's not clear exactly what's happening to criminal offending rates and 3rd World indicators like the incidence of rheumatic fever remain problematic, the focus is proving testing and worthwhile so far. And unlike Labour *(see next item)*, the political management and timing is well executed. National has 18 to 20 months to run to the next election, has just raised every low income household's benefit income, and is well into a programme of policies that have a credible chance of showing positive results in challenging areas by late next year.

Labour's Future of Work

Labour's Future of Work conference said a great deal more about t**he parliamentary wing's deficit of political management skills** than it did about the party's eventual policy stance. It was also clear that much of the purpose of the exercise remains to try and persuade, if not convince, trade union and other traditional backers that many of Labour's traditional answers on workplace relations need complete rethinking. Such a process is important and unavoidable, but it's also where the party was at the start of last year and its conference in late 2015. There is too little sense of progress, rather of a party that continues to talk to itself. **The absence of skilled or urgently engaged political operatives in the leader's office is palpable.** At this stage of the electoral cycle in the third term of a govt that is starting to inspire Muldoon-like levels of antipathy amongst its opponents, Labour is still not firing.

The conference at AUT was in too small a venue, leaving the impression it can't attract an audience. The leader's office comms team failed to brief key media ahead of the conference, instead preferring to chase headlines on migration policy and banking reregulation that only earned Labour negative commentary *(see next item on chasing NZ First)*. The party failed to capitalise on the presence of big-foot US economic zeitgeist-channeler Robert Reich – a former Clinton Cabinet secretary now endorsing Bernie Sanders. **They were lucky not to be flayed for the contradictory presentation from London University's Guy Standing**. He mounted a compelling analysis about the existence of a "precariat" of uncertainly employed, smart, entrepreneurial people as the basis for a new revolutionary class in progressive politics. He also argues there is little place for old-style unionism in this new age. This new class of talented but disenfranchised workers will spend a great deal of unpaid time seeking their next gig, he suggests. But at the same time, they would apparently rather do that than join a union.

Rather than offering a response to all this challenging thinking, Andrew Little and Grant Robertson were forced to spend their one well-attended press conference insisting that Universal Basic Income proposals were "not party policy". Labour needs to get off the pot and have a view quickly or risk being seen as chin-scratchers where National are doers.

National's Peters Dilemma

We've noted previously that NZ First has polled for more than a year as the likely 'kingmaker' in the next govt. That looks unlikely to change. At around 9% current support and with the parliamentary seat of Northland held by leader Winston Peters, the die is cast unless something unforeseeable occurs.

So, where would Peters rather jump – left or right? Given how far left National has tacked, the answer appears obvious: Peters would for constitutional reasons alone seek to form a govt with the largest polling party at the next election – clearly National barring a cataclysm – than with Labour/Greens. Only if that failed would he approach Andrew Little rather than John Key first to form the next govt. He has been a Minister in both Labour and National govts in the past. However, he has made a career of giving no firm commitment either way ahead of polling day. While NZ First has found an environmental tinge, Peters and the Greens around a Cabinet table remains difficult to imagine.

So, **Peters's job now is to maximise his vote. Clearly, that is in provincial NZ and includes worried or disillusioned National voters who are farmers or live in dairy industry-dependent towns, plus a rump of conservative Labour voters, who Andrew Little appears to fear losing, given his recent focus on banks and immigrants.**

There is no better proof of this problem than the trouble National is having trouble finding a top-drawer candidate to contest Northland against Peters. They are beginning to abandon any hopes that they might be able to cut NZ First down to size by forcing it to get 5% support at the next election. The only viable option is to try and work with NZ First. If suggestions that Shane Jones was to stand for NZ First in Whangarei were to prove accurate, then National could be more confident of being able to do so. For a start, Jones is younger than Peters, who must retire some time being well over 70. Jones has been heard to complain that John Key and Murray McCully seem more interested in his relations with Peters than they do in his work as Special Ambassador to the Pacific when he meets them. Jones was in the Cook Islands this week and saying nothing. Meanwhile what appears to be a turf fight for the redneck vote has been going on between Labour and NZ First with Labour raising questions about migration and suggesting the need for regulations to control bank mortgage rates. **Is Andrew Little worried Labour's provincial vote could also erode to NZ First, especially in the populist politics boosted by current US politics?**

2016 CEO Retreat confirmed dates for your diary

The 2016 Retreat will commence with lunch on **Thursday August 18**, and conclude after lunch on **Saturday August 20, at Millbrook Resort near Queenstown**.

The revamped format will give a combination of a day tailored to senior executive development, led by an expert of global standing, and a day the traditional 'deep dive' of novel subjects. You can choose to attend either or both programmes.

We expect to have the programme finalised in the next couple of weeks.

Dunne: Republican

While National, Labour and the Greens have retired from the battle over the flag saying they can see no point in now starting a debate about a Republic, United Future Leader Peter Dunne has a different view. He thinks he is one of the few party leaders not compromised by the flag debate and, as an ardent republican, there might be room for him to kick-start the debate. It would be a big challenge with even the pro-republican Greens extremely cautious about supporting such a move.

National's backbench makes itself felt

National's back bench – particularly the more rural members – are conservatives at heart as they have shown with their scepticism over Michael Woodhouse's healthy and safety legislation. He has met that scepticism by promising that **WorkSafe NZ will not prosecute other than serious breaches of the legislation over an initial period possibly as long as six months to a year.** The local govt and environment select committee has agreed to add Maori Party MP Marama Fox to hear submissions on RMA reforms, but without voting rights. Maori Party demand to be involved has been met while satisfying worries that Nick Smith has been too accommodating.

Meat industry restructuring

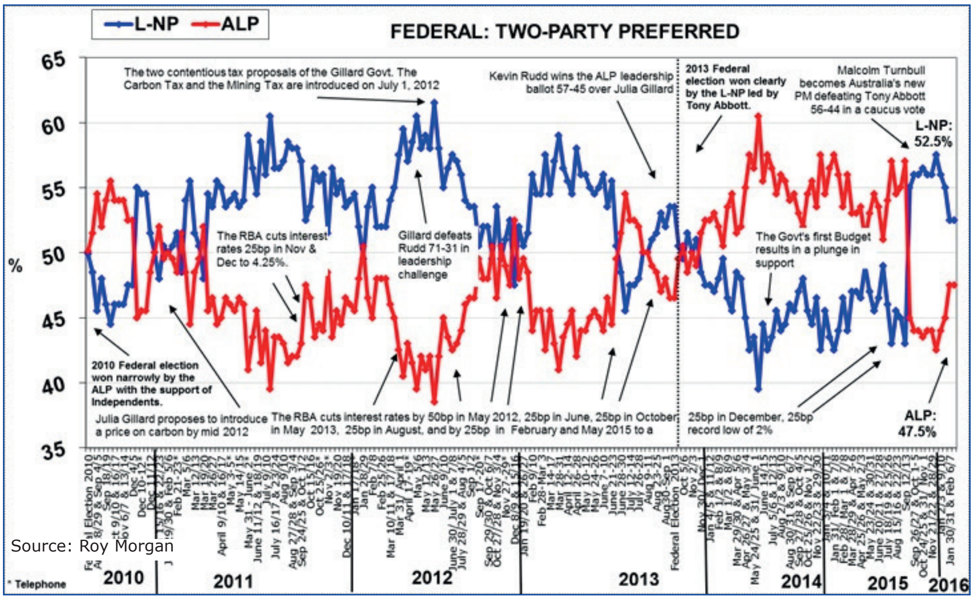
Meat Industry Excellence failed to win support for more funding on its industry reform push. Its attempt to exert more influence on Beef + Lamb NZ also failed. The mood of the 17,027 farmers on the B+LNZ roll at the annual meeting suggests an engineered attempt at coordinated industry restructuring is on ice. Turnout was about 15%.

GLOBAL AFFAIRS

Australia: Turnbull under pressure to call early poll

Aust PM Malcolm Turnbull has lined up all the ducks to be able to declare an early election, but has yet to do so. He may need to act sooner rather than later as the political mood is beginning to turn against the initially popular replacement for Tony Abbott. Political polls show the initial boost to the Liberal/National Party coalition from Turnbull's appointment fading, with the ALP close to level-pegging in some polls, although the Liberals remain well ahead of Labor in every state, according to the latest Roy Morgan poll. The political commentariat is increasingly questioning Turnbull's political skills and judgement and the quality of the relationship with his Treasurer, Scott Morrison. The best current example of this is Turnbull's out of the blue announcement this week of an intention to increase the power of the states to raise income taxes. The policy is apparently motivated by the difficulties Canberra faces in bringing federal fiscal policy back into line after the spend-up under the Labor administrations of Kevin Rudd and Julia Gillard. However, it caught state premiers unawares, saw Turnbull and Morrison making apparently contradictory statements on the issue, and has handed the ALP a potentially powerful 'double taxation' weapon for an election campaign. Veteran Aust political commentator Paul Kelly described the move as "Malcolm Turnbull's biggest idea yet and the most dangerous in political terms". Memories are fresh of Turnbull's Feb U-turn on GST and income tax reform.

Meanwhile, the federal budget has been brought forward to May 10 and a crucial Senate vote on the contentious Australian Building and Construction Commission bill is timed for April, to test a range of minor party senators. If the bill fails, the conditions for a double dissolution election on July 2, two to three months earlier than expected, would be set. The last double dissolution was in 1987.

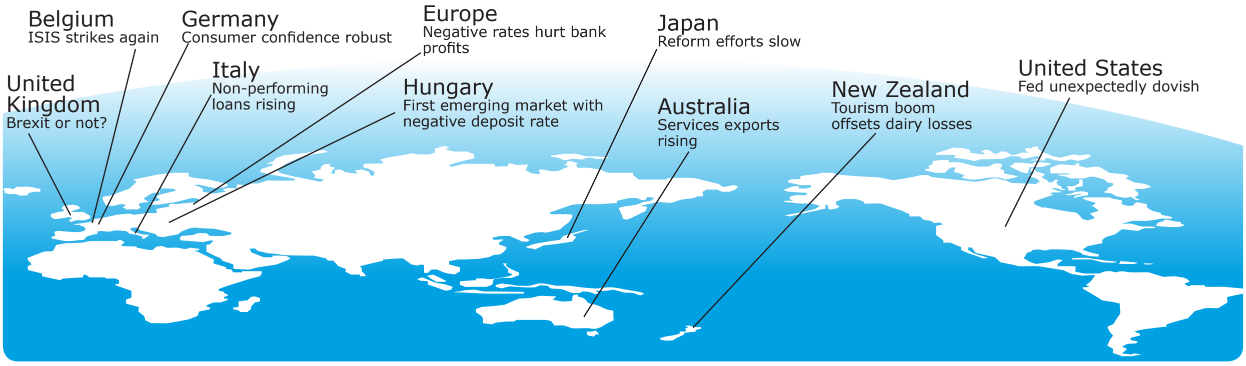


Source: Roy Morgan

TPP Progress

The clock is ticking on the machinations required to get enabling legislation for the Trans-Pacific Partnership in front of the US Congress. A bill is required by April 3 and an International Trade Commission's economic assessment report is due May 18. These timings would allow the TPP bill to pass in the expected 'lame duck' session, after the presidential election and before a new president is sworn-in. However, doubts are emerging whether a lame-duck session will occur. John Key pressed the case for TPP in Washington this week.

The world at a glance



Fonterra's result

Fonterra delivered a substantial uplift in first-half profit by shifting more of its raw milk to higher-margin products but the result laid bare the conundrum of seeking to maximise returns to farmer-shareholders while benefitting from a low farmgate milk price, an input cost. In Fonterra's biggest business, NZ ingredients, the gross margin on reference products used to calculate the milk price, such as whole and skim milk powder, dropped 20% to $331 per metric ton, while the margin on non-reference products jumped 121% to $1,412 per MT. Even so, ingredients is Fonterra's biggest earnings generator, with ebit almost three times greater than for higher-value consumer and food service products. The result was welcomed by S&P, which said the numbers were consistent with its A- rating (cut one notch last Oct). By doubling the first-half dividend and bringing forward second-half payments, Fonterra avoided a balance sheet-weakening extension of its interest-free loan package. The Fonterra Shareholders' Fund should be the beneficiary, but First NZ Capital maintained a neutral rating on the fund, while highlighting Fonterra's poor free cash flow and the opacity of its financials. While Fonterra's results are arguably a textbook response to weak global prices, the prolonged downturn has generated a blame game in some quarters and questioning of the cooperative structure, which seems only inflamed by CEO Theo Spierings' gruff Dutch directness.

Record migration continues

NZ has continued to post record net migration, with a 67,400 gain in the 12 months to Feb, led by arrivals from Aust, China and the Philippines. Migrant arrivals rose 10% to 124,200 in the latest 12 month period, while departures fell 1% to 56,900, according to the Statistics NZ data. Net migration from Aust was a gain of 1,600, the highest since Sept 1991 and the fifth straight month of annual gains. Those on work visas jumped by 4,700 to 38,600, while student visas climbed 3,100 to 28,100 and arrivals of NZ and Aust citizens rose 2,200 to 36,400. India was the biggest source of student arrivals, rising 1% to 10,100 from a year earlier, followed by those from China at 5,800 and the Philippines on 2,300. Short-term visitor arrivals rose 9% to 373,400 last month, a record for a Feb month, including a leap-year boost of 9,200 who arrived on Feb 29. Annual visitor arrivals rose 10% to a record 3.2m, of whom 1.34m were from Aust, 268,300 from China and 247,900 from the US. Some 2.42m NZs departed on overseas trips in the Feb year, up 6%.

NZ posted **a bigger-than-expected trade surplus in February**, as exports were bolstered by a $267m oil drilling platform. The merchandise trade surplus was $339m in Feb, compared with expectations for a $50m surplus in a Reuters poll. Excluding the drilling platform the surplus was $72m. Exports in Feb increased 9.3% to $4.25b. Exports of dairy products rose 9.2% to $992m from the year earlier, due to gains in both the value and volume of products such as butter and cheese.

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	6.4	6.2	6.2	2.0	1.4	1.5	1.7	1.7
Australia	21.2	2.6	2.5	2.6	2.9	2.7	2.5	1.5	2.0	2.5	2.1
United States	14.5	2.4	2.4	2.1	2.4	2.4	1.6	0.1	1.3	2.2	2.2
Japan	7.6	-0.1	0.5	0.7	0.6	0.9	2.7	0.8	0.0	1.6	1.3
Eurozone	7.3	0.9	1.5	1.5	1.6	1.5	0.4	0.0	0.3	1.4	1.8
United Kingdom	4.0	2.9	2.2	2.0	2.2	2.1	1.5	0.0	0.7	1.8	2.0
South Korea	4.2	3.3	2.6	2.7	2.8	2.9	1.3	0.7	1.2	1.9	2.0
Indonesia	2.1	5.0	4.8	5.0	5.3	5.0	6.4	6.4	4.3	4.9	5.0
Hong Kong	1.9	2.5	2.4	1.8	2.0	2.2	4.4	3.0	2.3	2.3	2.5
Taiwan	2.8	3.9	0.7	1.6	2.5	2.2	1.2	-0.3	0.7	1.2	1.5
Singapore	2.7	2.9	2.0	1.8	2.3	2.3	1.0	-0.5	-0.1	1.2	1.5
Malaysia	2.5	6.0	5.0	4.2	4.5	4.9	3.1	2.1	2.7	2.6	2.6
Philippines	1.7	6.1	5.8	6.0	5.8	5.4	4.1	1.4	2.2	3.1	2.7
Thailand	2.0	0.9	2.8	3.0	3.3	2.5	1.9	-0.9	0.6	2.0	2.0
India	1.6	7.3	7.5	7.6	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	0.6	3.0	4.6	3.1
Canada	1.6	2.5	1.2	1.4	2.1	2.1	1.9	1.1	1.6	2.0	2.0
NZ Trading Partners	100	3.6	3.4	3.3	3.4	3.4	2.2	1.0	1.4	2.1	2.1
Forecasts for New Zealand											
Consensus		3.7	2.4	2.5	2.8	2.9	1.2	0.3	0.9	1.8	2.0
BNZ Forecasts		3.7	2.5	2.4	2.5	2.4	1.2	0.3	0.7	2.0	1.8
The World		2.8	2.6	2.5	2.9	2.8	2.6	2.1	2.5	2.8	2.7

DOMESTIC ECONOMY

The strong Kiwi and the case for more rate cuts

The RBNZ got a strong depreciation when it eased monetary policy last June, but has had much less success in subsequent easings. A lower kiwi dollar is a key part of the relatively strong economic growth forecast over the next couple of years, as the so-called 'automatic stabiliser' of a weaker currency should offset weaker commodity, especially dairy, prices.

However, with US Federal Reserve chair Janet Yellen signalling 'caution' over the direction of US interest rates and little sign of buoyancy in other major economies, the inevitable effect on the local currency this week was that it has risen unhelpfully for exporters again.

More to the point, from the RBNZ's perspective, if the NZD isn't doing any of the heavy lifting to push inflation back to the 2% mid-point of the nominated range, then the case for a further interest rate cut becomes stronger.

While **inflation expectations in the latest ANZ survey were not as weak as expected, they wouldn't normally add up to a case for a rate cut at the April mid-point review, on April 28, for the OCR.** RBNZ governor Graeme Wheeler gets less chance to explain himself at the six week mid-point review between the quarterly monetary policy statements, but he is clearly feeling increasing pressure to be flexible and less obligation to financial market observers to be completely consistent with previous utterances.

In fact, the RBNZ has in recent times moved from a policy of insisting that its signalling is a paragon of consistency to allowing itself to deliver surprises. Bank economists' bewilderment at the March OCR rate cut is explained away by saying Wheeler's Christchurch speech on Feb 3, in which he appeared to rule out any early rate cut, was not aimed at financial market participants. Rather, it was intended to remind a general public audience of the flexibility the RBNZ enjoys, given the range of out clauses in the Policy Targets Agreement. **The net effect has been put to close monetary policy watchers on their toes and reduced certainty in the RBNZ's stance.**

However, **if the currency is to keep appreciating, then clearly more work needs to be done on interest rates.** It seems that the USD is now a key input to the Fed's decision on policy tightening. This means less USD upside, less Chinese yuan downside and, overall, stronger-for-longer commodity currencies like the NZD. The TWI was at 73.25 on Thursday, far stronger than the RBNZ assumed average of 70.9 through the June quarter. If it continues to stick at these levels it will knock at least 0.3% off the RBNZ's year-ahead inflation forecasts, dropping the March 2017 annual inflation forecast to 1%. From a consistency perspective, the Reserve Bank would have significant difficulty in arguing for any rate-cut delay. That makes the balance between a June and an April rate cut finely balanced.

The interest rate outlook

Expectations for the mid-2017 NZ OCR have been revised down 150bps over the last year – a big fall. Expectations for the US Federal Funds Rate have also been revised down 80bps. This has been part of a global trend, where fears of global disinflation, sub-optimal growth, market volatility and currency appreciation dominate. Expectations for the Reserve Bank of Australia's cash rate have been relatively stable compared to peers. Globally, it is unlikely that anything like 'normal' cash rates will appear for a very long time. **Anecdotal reports suggest a flood of good quality corporate bonds will come to market in NZ over the next six to nine months accordingly.** Near-term, it appears **the risk of the RBNZ cutting at its April 28 meeting is underpriced.** This week's ANZ Business Opinion Survey might have provided some catalyst, by revealing a further drop in inflation expectations. However, the drop was too small to be decisive.

Leading indicators healthy, outside agriculture

The latest brace of economic confidence and activity indicators suggest that, for now, tough times in dairy-affected rural communities will not necessarily have the impact they might normally be expected to have. That's partly a services, particularly tourism, story. Agricultural sentiment continues to sag, although the pace of deterioration has slowed while the services remains optimistic. Construction, which dropped unexpectedly in Feb showed a rebound in March. Perhaps unsurprisingly, given demand in Auckland and ongoing strong net immigration, construction is the most optimistic sector with residential, rather than non-residential, leading the way. Residential investment intentions are mirrored in official statistics showing a rise in residential dwelling unit authorisations.

Watch retail pricing intentions

Retailers' pricing intentions jumped in the latest ANZ Business Outlook. Keep an eye on this. At some point, the pressures of a somewhat lower exchange rate in the last 18 months should have an impact on the price of imported goods to consumers. It hasn't come through yet, but it could soon.

Agriculture

Danone is to stop selling NZ-made Karicare infant formula in the Chinese market, choosing the end supply of a brand whose sales were badly hit after the 2013 botulism false alarm. Chinese regulations are restricting the number of brands that foreign firms can sell in the domestic Chinese market and Danone will concentrate on its Nutrilon and Aptamil formulations. **Synlait Milk** reported underlying NPAT of $12.3m for HY16, up from $0.4m in the pcp, citing increased infant formula sales. **Spring Sheep Dairy,** the sheep milk venture half owned by **Landcorp**, has pre-sold 95% of its first season's production as probiotic powders to Taiwan, and plans to expand operations, currently based on a flock of 3,000 East Friesian ewes, next season. **Wool prices fell** at last week's auction, with volumes tapering at the end of the peak shearing season. **Forest harvest volume** fell in 2015 for the first time in seven years at 28.9m cubic metres, 3% down on 2014 and the first decline since 2008, Ministry for Primary Industries data shows. The value of wood exports fell 4.1% to $3.52b last year. Meanwhile, the **price of NZ Units of carbon** has risen to more than $11 per tonne, the highest since a price collapse in 2011. **Forest & Bird** is appealing a High Court decision clearing a DoC land swap, allowing 22 hectares of Ruahine Forest Park be flooded as part of the **Ruataniwha Water Storage Scheme.**

Tech and innovation

Wellington-based fund manager **Movac** has secured up to $20m from the govt-backed NZ Venture Investment Fund for a new capital growth fund that aims to raise up to $100m. Movac's previous investments have included Trade Me, Green Button, PowerbyProxi, and Aroa Biosurgery. This is NZVIF's second investment in Movac. **Vista Group** shares soared after a quarter of the cinema software company was sold to institutional investors and retail brokerages at $5.30 a share. Twenty shareholders, including CEO Murray Holdaway and director of commercial and legal Brian Cadzow, sold about 20.4m shares in an underwritten bookbuild. NZ-founded **LanzaTech** has signed its first North American deal, giving US biofuels and biochemicals maker **Aemetis** exclusive rights to its patented technology to convert waste gas to ethanol in California. The agreement provides for 12 years of exclusive rights in California. **IkeGPS** has reshuffled its executive team, which will see the departure of the laser measurement tool developer's CFO and senior vice president of sales. NZ-based CFO Gael Hargreaves will be replaced by a financial controller, and the CFO position moved to the US.

Scott Technology received Overseas Investment Office sign-off on Brazilian meat processor JBS taking a 50.1% stake in the industrial automation firm, while flagging its own potential acquisition of a German engineering rival in appliance manufacturing systems. The acquisition would give Scott a foothold in Europe and continue a buying spree that's seen the company's revenue treble since 2008. First-half profit jumped 70% to $1.9m, helped by the contribution from the recently acquired Machinery Automation and Robotics business. **AFT Pharmaceuticals** is a step closer to getting the intravenous version of its patented combination painkiller Maxigesic approved by the US Food and Drug Administration, which has approved an investigational new drug application (IND). **Snakk Media**, the NXT-listed mobile advertising company, was the victim of an online scam that could cost as much as $215,000. Snakk says it has more than $3m in available cash reserves.

Energy

NZ Refining said repairs in April to its hydrocracker unit will cut processing fee revenue by $7-$8m. Having the hydrocracker off-line "limits the company's ability to upgrade lower cost feedstock into high value products," it said. **NZ Oil & Gas, Tag Oil and Beach Energy** will surrender their Kaheru exploration permit off the Taranaki coast, saying current conditions don't support drilling, which had to start in May. **Meridian Energy** and **NZ Aluminium Smelters** have extended until July the deadline for the Tiwai Point smelter operator to give a year's notice to reduce its power supply to 400MW. The companies agreed to the three month extension to give NZAS more time to assess its capital needs and the Electricity Authority's delayed transmission pricing paper, Meridian says. NZAS is also taking its argument over some $20m of disputed statutory holiday pay to the Supreme Court.

Telecommunications

Spark has been cleared to buy Craig Wireless's unused radio spectrum for $9m. Craig Wireless and its Woosh subsidiary offered the spectrum for sale selling its 9,000 customers to M2 Group. Spark plans to use the spectrum to increase wireless product services for customers who can't access fibre services.

Meanwhile, entrepreneur Malcolm Dick, who sold his CallPlus business to M2 last year for $250m has come on board as an investor in the Hawaiki submarine cable project. **Hawaiki's backers announced today that the project to connect NZ, Aust, Pacific Islands and the US West Coast has commenced the build phase.**

A UMR Research survey for the **Commerce**

CORPORATE ROUND-UP

Commission of businesses' perception of competitiveness in the mobile market found majority satisfaction, with fewer than 15% looking to switch. **Chorus is** confident a fund to assist complex UF connections will be extended past the end of the year. The **NZX recorded a massive day of turnover on March 18, as 7.5% of Sky Network Television changed hands**, which was partly attributed to indexation changes for NZ companies. Market turnover on the NZX 50 was about $500m, compared to a daily average of about $150m.

Corporate actions

Food supplements maker **Oceania Natural** has become the third company to join NZX's NXT market in a compliance listing that valued the firm at $15.9m. Auckland-based Oceania is controlled by 62% shareholder Walker Zhong, who is both chairman and CEO. Ross Keeley, the former chief executive of fish oil supplement maker SeaDragon is an independent director. Oceania Natural produces and distributes food and supplements sourced from NZ and the Pacific Islands for domestic and export markets. **Trilogy International CEO Angela Buglass** has sold 100,000 shares after the first tranche of 400,000 options vested, taking advantage of a stock price that soared 284% in the past year and reached a record this month. She follows chairman Geoff Ross, who sold 158,750 shares for $525,463. American seedling company **ArborGen**, part-owned by NZX-listed forestry biotech company Rubicon, has settled with nine former employees for an undisclosed sum, avoiding a messy lawsuit through which it faced having to pay US$53m in damages and costs. **Auckland Council** has raised $250m selling four-year bonds at an annual interest rate of 3.04%, a record low for the local authority. The council set the coupon at 60 basis points over the comparable swap rate, currently at 2.43%. The four-year swap rate has tumbled about 114 points in the past 12 months. By contrast, the coupon on the council's existing Dec 2018 bonds is 4.41%. **Intueri Education Group**, whose **Quantum Education Group** unit is under investigation by the Serious Fraud Office, has extended its bank facility by $20m to $80m as it makes the final payments for two acquisitions. Intueri had $53.4m in bank debt as of Dec 31, 2015. Duncan Saville's **Utilico Investments** has again reduced its holding in **Infratil**, selling about 5m shares to leave its holding at 3.6%, $16m, leaving it with 20m shares, a filing shows. Utilico was one of Infratil's biggest shareholders with a 20% holding before it started selling in 2010.

Retail

Clothing retailer **Hallenstein Glasson** posted a 21% drop in first-half profit and warned a warm autumn is affecting sales in both Aust and NZ. Net profit fell to $6.8m in the half from $8.6m a year earlier, as sales rose 1.4% to $112.4m. The gross margin on sales fell to 56.8% from 60.4%. **Kathmandu** aims to lift the proportion of total sales it gets online to 10% from 6.6% currently and is considering a "capital-light" international expansion that would include wholesaling, franchise partnerships and internet sales. The outdoor equipment and clothing retailer returned to profit in the first-half, with earnings of $9.4m, meeting guidance, and affirmed a full-year forecast profit of $30.2m. Sales rose 9.3% to $196m, led by Aust revenue growth of 12% to $124m, a 4.6% gain to $68m in NZ sales and a 19% gain to $3.6m in UK sales. Online sales rose 23% to about $13m. **Pumpkin Patch** faced glitches with its retail website, adding to problems at the children's clothing retailer whose management is trying to revive the business. Sales in the six months to Jan 31 fell 16% to $103m. Online sales fell 13%. It says the online issues have now been resolved.

Transport and tourism

Air NZ is reviewing its 26% stake in **Virgin Australia**, having just committed its A$131.2m share of a one-year A$425m funding package from Virgin's four shareholders: Air NZ, Etihad Airways, Singapore Airlines and Virgin Group. The funding is to give the Aust airline room to review its capital structure and work through excessive debt levels that are restraining growth. **The Australian Competition and Consumer Commission** has won an air cargo cartel appeal against surcharges applied by **PT Garuda Indonesia** and **Air NZ,** the only two airlines of 15 that haven't settled with the ACCC since the regulator began proceedings. Total fines of A$98.5m were imposed by the courts against the 13 airlines that settled, with the largest, A$20m, imposed on **Qantas Airways**. The Aust action is one of a number that has embroiled major airlines, including a US class action filed in 2006 on behalf of six freight forwarders and has been led by global litigation firm Hausfeld. Some 26 carriers have cut settlement deals totalling US$1.19b. In that case, Air NZ and Air India are the only carriers left defending the civil lawsuit.

PO Box 25120, Featherston Street, Wellington 6146, New Zealand
PHONE 04 385 6249 EMAIL hugo@thehugogroup.com www.thehugogroup.com
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