HUGOvision

Assessing the economic and political environment in New Zealand

September 18 2020 | **Confidential to HUGO members**

Is the election a fait accompli now?

Page 2

Next Tuesday's OneNews Colmar-Brunton poll will be the first public test of privately circulating polling data suggesting the second lockdown has not harmed Labour's support at around 50% and that electoral volatility is concentrated in the minor parties. ACT and new right wing fringe parties appear to be the primary beneficiaries.

Farewell V-shaped recovery

Page 3

The PREFU was important in three respects: the surprising extent of the govt's under-spend against provisioning for the covid response so far; the long period of much lower net Crown worth created by an anticipated 15+ years of fiscal deficits; and an official end to hopes of a V-shaped recovery.

Nats go for the hip pocket

Page 3

The National Party's decision to use funds earmarked by the current govt for covid relief to fund a 16 month tax cut that also addresses bracket creep for low and middle income earners produced an incandescent reaction from the Labour Party. The policy may finally have given National something solid to campaign on.

Labour's campaign

Page 2

Labour is campaigning on a tightly controlled group of policies that are not strategically linked to one another, except to the extent that they are careful where there could be trouble - viz. a cautious tax policy - or tailored for maximum soft appeal - viz. the Matariki holiday and the pledge to reach 100% renewable electricity five years earlier than previously targeted, despite overwhelming advice that this is a costly, poorly targeted approach to decarbonisation.

Climate change disclosure regime

Page 5

The new climate change disclosure regime will quickly start to force property owners and investors to rethink the location of housing, industry and infrastructure.

Will covid restrictions lift next week?

The ongoing discovery of new covid -19 cases in the community in Auckland will make the govt very cautious about relaxing covid restrictions in the city, and potentially the rest of the country. It will be taking comfort from evidence that broad public support for a cautious, health-first approach continues, despite the sharp economic knock delivered by the partial national second lockdown.

Text finalised September 18

Has the country already decided?

The first public political poll since the resumption of election campaigning will be released by TVNZ next Tuesday evening, ahead of the first televised leaders' debate.

It will be a crucial test of whether the electorate has effectively already decided in sufficient numbers to back the return of a Labour-led govt, with the only question being whether it either has or needs coalition partner options.

The only recent clue is the habitually leaked UMR poll provided to corporate clients, which was taken early this month and spanned the Greens' debacle over the Taranaki green school funding.

That showed Labour entrenched above 50% support, National still in the doldrums below 30% and both the Greens and NZ First ,struggling to make 5% support.

The major beneficiary of the collapse in support for National and NZ First is ACT, which appears to be entrenching its support above 6%, giving it the prospect of perhaps 7 or 8 MPs.

The potential for a very large wasted vote remains because of the potential for close to 10% wastage by Green and NZ First supporters, augmented by the surprising amount of activity being generated by right wing fringe parties.

Nats foreign policy

Offered the opportunity to plant the National Party's foreign policy stance more closely with the US than Labour has done, Judith Collins's response was notable for hewing to the bi-partisan approach that NZ maintains an "independent foreign policy." The Chinese embassy in Wellington will have noted this.

The Billy TK effect

The growing crowds for the covid-conspiracy party AdvanceNZ, including a substantial nationwide presence of signage, suggests it is finding a constituency and may even survive the election, despite having no prospect of making it to Parliament. The emergence of a Trumpian party of the right is, if anything, overdue in NZ, particularly if NZ First proves to be a spent force as its founder, Winston Peters, must contemplate retirement if not returned on Oct 17.

National drowned out?

While NZ First is banging the 'handbrake' and 'insurance policy' drums in its messaging, this does not appear to be resonating as yet.

Reports from the campaign trail suggest National Party organisation is less slick than ACT's and that Judith Collins is campaigning with less vigour than Jacinda Ardern, who will be feeling the wind at her back. Covid outbreaks remain a risk, but a diminishing one as early polling looms from Oct 3, in a fortnight.

The TV debates are an opportunity for Collins to break out. But the apparent solidity of support for the govt in spite of the second Auckland lockdown suggests that National faces an uphill battle just to claim a respectable mid-30s result.

Its Pharmac, meth control, early childhood education and support, and EV packages all look responsible and potentially popular. But unless evidence emerges to the contrary in the next couple of weeks, the phone appears to be off the hook with swinging voters at this election.

Today's tax cuts announcement will have cut-through, by comparison, (*see article opposite page).*

Auckland Central

Meanwhile, no matter the official line**, the pressure on Labour to tip the wink in favour of Greens candidate Chloe Swarbrick in Auckland Central** must be growing. The seat looks to be the Greens' best lifeline for returning to Parliament on a sub-5% party vote. Labour's candidate, employment lawyer **Helen White**, remains remarkably low-key.

Labour's campaign focus: hold the centre, frighten no one

Labour's election campaign policy announcements so far are a study in caution and carefully calibrated populism that seek to do nothing that would derail the underlying support it appears to have banked by its handling of covid-19. From a strategic perspective, the most impactful announcements so far lack either strategic intent or coherence.

Politically, it recognises that voters are shell-shocked and want certainty, relief and a little optimism rather than reform at the moment.

Key examples are its quixotic 100% renewable electricity policy, its minimalist tax policy, and the Matariki holiday announcement.

Potentially unpopular announcements, such as reneging on fees-free tertiary education in the second and third years of study, have been carefully low-key.

This is a govt **very focused on being re-elected. In the process, it may also be laying groundwork for policy surprises in its second term** by having only very loose guiding principles.

Renewable electricity

Ignoring advice from its own Climate Change Commission, Labour has doubled down on its

(continues on page 4)

Struggling to spend?

One of the most remarkable aspects of the PREFU is the extent to which the govt is under-spending against its covid emergency envelope.

Despite all the headlines about a 'sea of red' and 'out of control borrowing', the PREFU actually revealed a $10b reduction in the NZDMO's bond programme because of lower interest rates and slower than expected spending since the May budget.

The PREFU now forecasts covid-related spending will top out at $58.1b over the period to June 2024, compared with the $62.1b initially set aside.

The sheer difficulty of shovelling out such huge lumps of funding is underlined further in this week's report from the Auditor-General, which notes that of the $26.7b of covid-related funding set aside to be spent in the 2019/20 fiscal year ended June 30, actual spending totalled $15.1b.

No V-shaped bounceback

Most immediate commentary on the PREFU economic forecasts noted that the immediate bounceback looks likely to be stronger than earlier expected, but that growth in the medium term will be weaker.

What few noted was that this puts an end to the hope of a V-shaped recovery. This is consistent with some international commentary on the global economy that warns against mistaking the inevitable rebound from one or two quarters of deeply negative growth for a recovery.

Weakness in the global economy is a key reason for slower forecast growth in NZ. Prolonged border closure and further community outbreaks are also obvious sources of risk.

The govt is adamant the Treasury's decision to assume borders remain closed until Jan 2022 does not reflect govt policy decisions. However, it should be regarded as a realistic assessment of likely timeframes.

Borders will only be able to reopen with confidence once vaccines are available. Realistically, the combination of creating, testing and licencing one or more vaccines might reasonably be expected to run through to mid-2021. Another six months for sufficient supplies to be manufactured does not seem unreasonable.

The PREFU is also notable for the govt's effective abandonment of a goal of returning to Budget surplus, with deficits running through to 2035, the end of the long term forecast period.

Nats' shrewd PREFU response

National is proposing to deal with fiscal drag, raising the current bottom, 10.5% tax rate threshold from $14,000 to $20,000, the 17.5% threshold from $48,000 to $64,000, and the current 30% rate threshold from $70k to $90,000, with the top 33% tax rate applying to all income above $90,000.

This is a significant point of difference for National and will have significant appeal to middle income earners. Shrewdly, National claims this is financed by funding from unallocated covid response funding. In this way, National delivers to its middle income base without appearing fiscally irresponsible and puts money directly into household budgets in a way that Labour has declined to do via 'helicopter money' payments.

If left in place over the longer term, this is an ongoing reduction in Crown revenue at every stage of the income tax scale. So the claim that is funded from covid provisioning would be smoke and mirrors if it weren't for the fact that National has explicitly recognised this fact and says these threshold changes will apply only for 16 months.

The longer term expectation must be that National will move heaven and earth to keep those changes in place, delivering relief on fiscal drag that was already overdue and dangling a carrot for voters of longer term lower taxes. It may not be enough to win it the election, but it does give National a point of real hip pocket advantage. By reducing the bright line test for capital gains tax eligibility back to the previous two years instead of Labour's five and removing the ring-fencing on residential property operating losses, it also delivers to its property investor base at a relatively low five year forecast cost to revenue of $480m.

Abolishing fees-free tertiary education may be unwelcome but not fatal to its base and delivers $359m in annual savings. Many would welcome a reversal of the govt's plans to create a single national polytech, which also saves $41.7m.

Table 1.2 Economic forecasts

Year Ending June	2019	2020	2021	2022	2023	2024
Annual average % change	**Actual**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Private consumption	3.0	-2.4	1.2	3.6	2.6	3.7
Public consumption	3.6	5.3	4.8	1.6	1.5	1.1
Residential investment	2.2	-12.5	-5	7.5	10.3	11.1
Business investment[1]	2.5	-10.1	-0.6	5.3	5.0	7.8
Exports	2.7	-7.0	-15.4	8.0	10.9	6.9
Imports	1.7	-5.7	-7.7	6.7	6.6	6.7
GDP (expenditure measure)	**2.5**	**-3.2**	**-0.4**	**3.7**	**4.0**	**4.2**
GDP (production measure)	**2.8**	**-3.1**	**-0.5**	**3.6**	**3.9**	**4.1**
Real GDP per capita (production basis)	1.2	-4.8	-2.0	2.9	2.9	3.0
Employment	1.7	1.3	-3.2	1.2	2.6	3.2
Unemployment rate[2]	4.0	4.0	7.7	7.6	6.6	5.3
CPI inflation (annual % change)	1.7	1.5	1.2	1.2	1.4	1.9
Current account balance (% of GDP)	-3.4	-2.4	-5.1	-5.2	-4.1	-3.8
Exchange rate (TWI)[3]	72.7	69.7	70.0	70.0	70.0	70.0
90-day bank bill rate[4]	1.7	0.3	0.1	0.1	0.1	0.1

Sources: Stats NZ, Reserve Bank of New Zealand, the Treasury

Notes:
1. Business investment is the total of all investment types excluding residential building.
2. Percent of the labour force, June quarter, seasonally adjusted.
3. Trade-weighted Index (TWI), average for the June quarter.
4. Average for the June quarter.

POLITICS AND POLICY

(continued from page 2)
desire to make NZ's electricity 100% renewable. It has brought forward that target from 2035 to 2030 and appears increasingly committed to the pumped hydro project promoted by Meridian Energy founder ceo Keith Turner.

The stance is apparently seen as a branding opportunity to attract international investment and a premium on goods and services produced using renewable energy.

The scheme, proposed for Lake Onslow in Central Otago, is strongly backed by David Parker, a Clark era energy minister who regards electricity reforms as unfinished business, tied up with water allocation and rentals, and climate change response.

We are told Lake Onslow was promoted onto the 'shovel-ready' projects list without going through the established official channels, although it did not survive the vetting process.

The multi-billion scheme would give the govt a powerful regulatory tool, as Lake Onslow would 100% govt-owned. However, it would add pressure on the need to invest in grid capacity to ship energy out of the lower South Island, assuming the Tiwai Point smelter closes and no comparable demand load emerges in the lower south.

On that front, Parker has expressed sympathy in recent days for smelter majority owner Rio Tinto's desire for lower transmission prices.

Smelter sweetener?

This lends weight to the growing impression that the govt is open to a deal that would back a phased closure of the smelter over three or more years.

An announcement to that effect prior to polling day would be a powerful fillip to a govt taking a 'no nasty surprises' approach to pre-election policy announcements.

Meanwhile, **Fonterra says it would rather use wood fibre or natural gas to supply industrial heat** for milk processing, saying electricity production and transmission costs are comparatively unattractive.

No tax trip-up this time

Supporters who hoped Labour would be a 'transformational' govt may see signs of that in the energy policy, but **Labour has no qualms throwing them under the bus with its tax policy.**

Promising to tax capital gains and wealth has been a vote killer for Labour three elections in a row. It is not about to make that mistake again this time.

Hence, it has announced a minimalist tax policy, with a token increase to 39 cents in the dollar on personal income above $180,000 - a piece of symbolism that will change no high income earner's vote but sends a faint signal to its base that the rich will help pay for covid.

The only new tax policy is a promise to move within the next parliamentary term on global online platforms that generate income in NZ but don't pay tax here. However, that will only happen if the OECD fails to make progress on its base erosion and profit-sharing initiative and will only come in the form of a levy on revenues that will raise, at best, an estimated $80m.

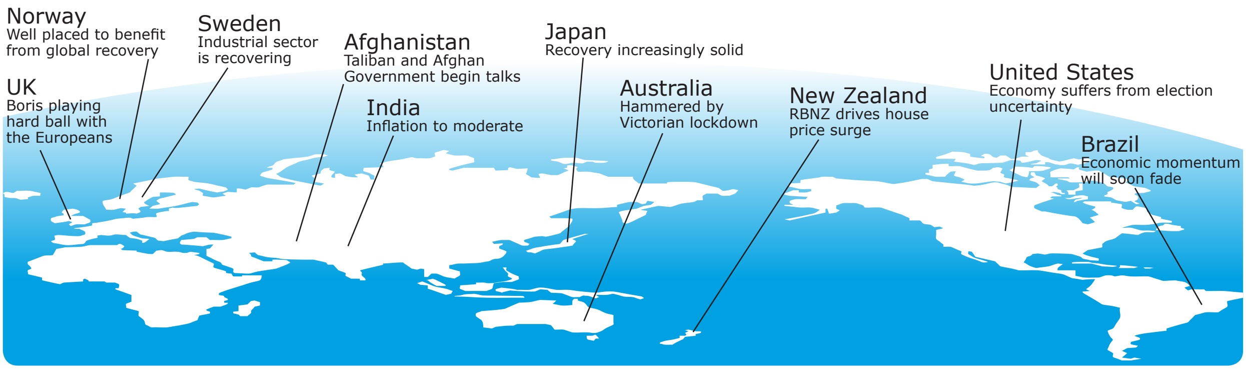
Notably, when **Grant Robertson** was asked about bottled water levies, fuel taxes and, by implication, other possible targeted taxes, he **was adamant: "this is it."**

In summary, **tax reform in the immediate covid recovery period is off the table** and, unless the Greens, were to have an extraordinary turnaround in fortunes, their wealth tax proposal has almost no prospect of flying under a 2020-23 Labour-led administration.

Also out of contention, is any move on **bracket creep,** which has been a growing problem for some years already and will require action at some stage.

As noted, National has created a point of differentiation here.

The world at a glance



Matariki holiday

Pledging a new public holiday for Matariki may have sounded tin-eared to business owners struggling with post-covid volatility, but the decision is **unassailable politically.** Most voters won't object to a day off and to complain about a holiday based on the Maori calendar would be risky and churly, especially just ahead of Maori Language Week.

An argument could be mounted for this one to replace another holiday, but who would a govt choose to offend? Returned service people? (ANZAC Day); Monarchists ? (Queen's Birthday); The union movement? (Labour Day); Christians (Christmas and Easter?); the racing industry and everyone generally? (regional anniversaries).

Climate risk disclosure challenge

Climate Change Minister James Shaw announced this week that NZ would become the first govt to formally require large companies, banks and insurers to disclose their climate change risk. This will add to pressure from increasingly climate-aware fund managers and boards to change behaviour from the bottom up.

Shaw expects these disclosures to start influencing capital investment decisions for households, businesses and public sector infrastructure planners. **The future location of housing, urban development, transport and other infrastructure will all be affected**.

It will force focus on the how central and local govt share the 'moral hazard' risks posed for existing capital assets by this process, e.g., stranded assets such as coastal property, homes at risk from bush fires, or potentially obsolete industrial plant.

An Aussie dimension?

The disclosure regime also starts to expose the potential that NZ lenders, asset owners and insurers will be affected by the way Australia, which faces much larger climate change risks and liabilities, deals with its exposure.

The big four Australian-owned banks here do almost 90% of NZ's lending, while IAG and Suncorp Metway do more than half of all home, car and business insurance here. Australia's financial regulator, APRA, is also pushing hard for those same banks and insurers to declare their climate change risks.

Political ups and downs

The National Party has decided to look past evidence that its Upper Harbour candidate, **Jake Bezzant,** misled his previous employer, a NZ-based parking software company with US customers, about the status of major contracts he reported to the board. He was asked to leave the company, where he was ceo.

The 31 year-old is expected to win the seat, where he replaces former deputy leader Paula Bennett.

First-term NZ First MP **Jenny Marcroft** will not be returning to Parliament after an unexpected demotion to 17th on the party list.

Trading partner growth

(2018-2019 actual; 2020-2022 Hugo and Consensus Forecasts)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
China	31.9	6.8	6.1	2.1	7.8	5.5	2.1	2.9	2.7	2.0	2.4
Australia	17.8	2.7	1.8	-4.0	2.8	3.3	1.9	1.6	0.7	1.5	2.1
United States	11.3	2.9	2.2	-5.2	4.0	2.6	2.4	1.8	0.9	1.7	2.2
Japan	7.1	0.3	0.7	-5.3	2.5	1.1	1.0	0.5	-0.1	0.2	0.7
Eurozone	5.8	1.9	1.3	-7.9	5.7	2.0	1.8	1.2	0.4	1.1	1.4
South Korea	3.4	2.7	2.0	-1.1	3.3	2.9	1.5	0.4	0.4	1.0	1.9
United Kingdom	3.1	1.3	1.5	-9.9	6.4	2.0	2.4	1.8	0.7	1.4	2.0
Singapore	2.3	3.5	0.7	-6.3	5.7	3.1	0.4	0.6	-0.4	0.9	1.9
Hong Kong	2.6	2.9	-1.2	-6.3	4.3	2.5	2.4	2.9	1.3	1.6	2.2
Taiwan	2.4	2.7	2.7	0.0	3.2	2.6	1.4	0.6	-0.2	1.0	1.3
Malaysia	2.1	4.7	4.3	-3.9	5.4	4.5	1.0	0.7	-1.2	1.7	2.5
Indonesia	2.0	5.2	5.0	-1.5	5.1	5.2	3.2	2.8	2.3	2.8	3.7
Thailand	2.1	4.1	2.4	-6.9	4.7	3.6	1.1	0.7	-1.2	0.9	1.3
Philippines	1.7	6.3	6.0	-5.9	7.7	6.0	5.2	2.5	2.3	2.7	3.0
Vietnam	1.5	7.1	7.0	2.5	7.7	6.4	3.5	2.8	3.3	3.2	3.8
India	1.4	6.8	4.2	-5.3	7.7	6.9	3.4	4.8	4.6	4.3	4.7
Canada	1.5	2.0	1.7	-6.4	5.3	2.7	2.3	1.9	0.7	1.7	2.1
NZ Trading Partners	100.0	4.1	3.3	-2.6	5.3	3.8	2.0	2.0	1.3	1.6	2.1
Forecasts for New Zealand											
Consensus		3.2	2.3	-5.9	4.8	3.8	1.6	1.6	1.5	1.2	1.5
BNZ Forecasts		3.2	2.3	-7.8	3.0	4.2	1.6	1.6	1.5	0.7	1.3
The World		3.2	2.5	-4.7	5.0	3.6	2.9	2.7	1.9	2.3	3.0

Bonds shortage looms?

Treasury's sobering picture of the years ahead in this week's PREFU included $97.5b of new bond issues over the three years to the end of June 2022. But it also showed how little room there is for the RBNZ to expand its main current tool for affecting monetary policy, the Large Scale Asset Programme (LSAP) bond-buying programme.

The LSAP was expanded to $100b by June 2022 from $60b in last month's MPS, with its main impact on economic stimulus and inflation expected in the next six months. The RBNZ is on track to buy all of the bonds issued between March 2020 and June 2020 at the current rate of issuance.

The LSAP and NZDMO programme are almost aligned at the moment, with net planned bond issuance expected to match the $100b limit for the RBNZ's bond buying, which would leave the central bank with 59.5% of bonds on issue. That almost matches its new self-imposed target to own no more than 60% of the bonds on issue in the market.

If the govt cannot further loosen fiscal policy with bigger deficits and more borrowing, this would force the RBNZ to turn to its 'Funding for Lending' programme to lend to trading banks at negative interest rates. This would further lower mortgage and business lending rates in tandem with a negative Official Cash Rate, possibly as early as March 2021.

Meanwhile, the 2023 govt bond yield and shorter-end swap rates dipped into negative territory for the first time on Sept 9 with the RBNZ buying $270m of April 2023 bonds at a weighted average successful yield of negative 0.008% as part of the LSAP. The market is now pricing a 65% chance of a 25-basis point rate cut by Feb.

State of the economy

The 12.2% economic contraction in the June quarter was not as bad as feared and produced more headlines than insights at a time when forecasts are increasingly no more than a hopeful guide.

The NZIER Consensus Forecasts demonstrated that by showing a wider than usual range. **The most optimistic forecast is a decline in GDP of 5% on average for the year to March 2021, while the most pessimistic is a decline of 11.8%.**

A preliminary Sept read of the ANZ business outlook found a net 26% of businesses were pessimistic about the economy, an improvement on the net 41.8% pessimism in Aug. A net 9.9% of firms expect their own activity to shrink, also an improvement on the 17.5% picking a contraction in Aug and 55% in April. The Westpac McDermott Miller Consumer Confidence Index fell 2.1 points in Sept, taking it to 95.1, the lowest since 2008. Those aged 18-29 had the largest drop in confidence across age groups since the last quarter, with a fall of 8.7 points.

Labour market sentiment

A Stats NZ survey of employed people in the June 2020 quarter showed 7% felt there was a high or almost certain chance of losing their job or business within the next 12 months. A further 18% (468,000) felt there was a medium chance, while 4% (105,000) stated they did not know. Most said there was little or no chance of losing their job or business (71% or 1,859,000).

Activity indicators

Retail card spending fell $530m in Aug 2020 compared with July as Auckland entered covid-19 alert level 3, Stats NZ said. In actual terms, retail spending using electronic cards was $5.4b in Aug 2020, down $46m (0.8%) from Aug 2019. In contrast, retail spending in July 2020 was up $610m (11%) on July 2019.

Spending on food and beverage services, which includes cafes, restaurants, takeaway food, and bars, fell 13% ($115m) compared with Aug 2019.

House prices defied many predictions with the Real Estate Institute national house price index up 10% to a record 3,072. The median house price climbed 16.4% to $675,000 year-on-year, led by a 3.5% increase in Auckland to a median of $950,000. Sales climbed to 7,652 last month up almost 25% from a year earlier, the highest number of sales for an Aug in five years.

The latest Auckland covid-19 lockdown hit manufacturing output but the sector is still expanding by a whisker. The seasonally-adjusted BNZ/Business NZ performance of manufacturing index for Aug was 50.7, down 8.3 points from July and the lowest result since May.

Wholesale trade sales fell $2.7b (10%) in the June 2020 quarter, the largest decrease in wholesale trade sales since the series began 25 years ago.

Global outlook

Fitch Ratings expects global GDP to fall by 4.4% in 2020, a modest upward revision from the 4.6% decline expected in June. It doesn't expect a 'V'-shaped recovery, with unemployment shocks ahead in Europe, firms cutting capex, and social distancing constraining private sector spending. Fitch expects the US economy to contract by 4.6% this year compared to a forecast of 5.6% in June. The 2020 China growth forecast is +2.7% compared to +1.2% in June.

Primary Sector

Former primary industries minister **Nathan Guy** is one of those recommended by **Fonterra's** selection panel process to fill two seats on the milk cooperative's board. Incumbent director **Brent Goldsack,** along with Guy, director and commercial lawyer **Cathy Quinn** and majority shareholder of the **Spectrum Group** of dairy farms, **Mike O'Connor,** have gone through the selection process. Nominations for farmers supported by 35 different shareholders are now open. The final list of candidates will be announced on Sept 25 ahead of a postal ballot ending in Nov.

The co-op produced the turnaround result that ceo **Miles Hurrell** has worked hard to produce, reporting a net profit attributable to shareholders of $686m for the year ended July 31, compared with last year's $562m loss. Full-year normalised earnings per share were 24 cents, at the top end of guidance, and dividends have resumed at 5 cps after debt was reduced by $1.1b to $4.7b.

Dairy prices rose for the first time in two months, increasing an average 3.6% to $US3,092 a tonne. Demand from South Asia was strong, and there was a clear preference to buy NZ-sourced SMP.

Fonterra's Australian unit agreed to buy Victorian cheese processor Dairy Country for A$19.2m, subject to regulatory approvals.

Mike Heron was appointed to review the assurances **MPI** receives for safe transport of livestock by sea, following the loss of 40 crew and almost 6,000 dairy heifers on the Gulf Livestock 1 in the South China Sea. Live animal exports are suspended meantime.

Sanford ceo Volker Kuntzsch is leaving after seven years in the job. Sanford's Andre Gargiulo will be acting ceo while a replacement is sought.

Banking, finance and insurance

RBNZ stress-testing found that NZ trading banks would remain in a sound position, even in much more severe circumstances than those created by covid-19.

"Overall, it's given us some confidence in our messaging to the banks and the people of NZ that banks should be able to support their customers" and that under all but the most severe of shocks they should be able to continue lending, said RBNZ's head of financial system policy and analysis **Toby Fiennes**.

Southern Cross Health Society's surplus in the 12 months to June was up from $10.7m last year to $32.4m. Members paid $1.14b in premiums with 85 cents in the dollar paid out in claims.

The Reserve Bank's review of the 2010 Insurance (Prudential Supervision) Act is resuming after being suspended owing to the pandemic. Deputy governor **Geoff Bascand** signalled it is likely to require general and life insurance companies to hold more capital and is promising more intense supervision.

Heartland Group Holdings completed a 30-year A$142m securitisation to fund growth in its Australian reverse mortgage business. Heartland reported a 2.2% fall in net profit to $782m for the June 30 year and directors questioned whether the current, low share price was reflecting fair value.

Electricity network operator **Orion** made a confidential settlement with insurer IAG over the 2017 Port Hills fires without admission of liability and ending IAG's $4.6m claim in High Court.

Telecommunications, media and entertainment

MediaWorks agreed to sell its unprofitable free-to-air television division to the **Discovery Channel** for an undisclosed sum. Discovery's acquisition will expand its NZ reach to six pay-TV channels and eight free-to-air channels, plus the Newshub news business and the streaming site ThreeNow.

Spark is seeking up to $290m more in annual revenue within three years and savings of up to $115m by simplifying its business, accelerating the uptake of 5G technology and developing its health and sports offerings.

Sky TV reported a net loss of $146.3m in the year to June 30, due largely to $177.5m of impairment charges as it wrote down $27.5m of the goodwill from RugbyPass and another $150m from its core business. The pay-TV operator is predicting smaller declines in revenue and earnings as it spends more on streaming services and plans to enter the retail broadband market with a bundled content offering.

A Californian small cap listed equities investor, **Osmium**, has emerged as owner of close to 8% of **NZME** after selldowns by two Australian institutional shareholders. One of those two Aussie instos has continued to be a seller since the Osmium disclosures.

The **Commerce Commission** is seeking better price disclosure from mobile operators to allow consumers to make comparisons after finding 15% of consumers could be saving an average of $11.60 a month. In response, **Vodafone** suggested churn rates, which are significantly higher than in the electricity sector, were creating costs and should be lower.

Former head of news at Radio NZ **Glen Scanlon** was appointed chief executive of the **Broadcasting Standards Authority**.

CORPORATE ROUND-UP

Energy

OMV has committed $70m for a **compression plant intended to prolong the life of the Pohokura** gas field.

Orion ceo Rob Jamieson resigned after 26 years with the company, including the last nine in the top job.

Tech and innovation

Trucking software firm **Eroad** is planning to raise $50m when it lists its shares on the ASX. Shares will be offered at $3.90, a 0.3% discount to Monday's closing price.

Anti-money laundering tech startup **First AML** said it raised $8m in a Series A funding round led by US-based Bedrock Capital, with support from Pushpay founder Chris Heaslip and Icehouse Ventures.

Microsoft gained **Overseas Investment Office** approval to build a cloud computing data centre in Auckland. Microsoft has yet to put a timeline on the project, but recently named Fonterra and Spark as anchor customers.

Wholesale and retail

Briscoe Group made up almost all the revenue lost during level 4 lockdown when the country reopened and customers flocked to redecorate. Earnings for the 1H20 fell just 1.3% to $28m and the company will pay a dividend of 8.5cps. It received $11.5m in wage subsidies.

Restaurant Brands reported profit of $11.4m on total group sales of $383m, down $59.2m on the previous half year. The company is seeking further US expansion.

Courts and regulation

IRD won another round of its long-running series of battles relating to cross-border hybrid instrument arrangements. The **Court of Appeal** found Japanese-owned Frucor's arrangements were an artificial construct designed to avoid tax.

Fletcher Building must pay Downer subsidiary **Spotless Facility Services** more than $2m after a High Court ruling which clarifies how standard form construction contracts should be interpreted.

The **Auckland High Court** handed out $4m in penalties against two Hamilton-based real estate firms, **Lodge Real Estate** and **Harcourt's agency Monarch**, for cartel style price-fixing.

Transport and logistics

Air NZ grounded its Boeing 777 fleet until at least Sept 2021 due to the ongoing impact of covid-19 and a further 385 cabin crew are facing redundancy. The airline released a large number of low-priced fares following Monday's relaxation of social distancing restrictions on planes and sold more than 110,000 tickets, compared to the usual 31,000 per day pre-covid-19. Air NZ is currently flying approximately 200,000 domestic seats per week, around 70-75% of pre-covid-19 capacity. **Jetstar** also reported strong demand for its planned return to the air.

The govt allocated up to $45m to support the construction of a **marine transport facility** in northern Te Tairāwhiti on the North Island's East Coast.

Port of Tauranga named **Leonard Sampson** to replace chief executive **Mark Cairns** when he leaves the business after 15 years in June. Sampson, formerly the port's commercial manager, has been chief operating officer since Sept 2019.

Corporate actions

The **NZ Shareholders' Association** will vote its proxies against the $6 per share takeover offer of **Metlifecare** by Swedish buyout firm EQT at a special meeting on Oct 2. The offer is the second from EQT, which pulled an earlier $7 per share offer blaming the pandemic. Major shareholder the NZ Super Fund backs the offer, but the retail investor group said the offer is below Metlifecare's net tangible asset value of $7.18 per share, and isn't unanimously backed by the board.

STA Travel owes creditors more than $5m with the amount expected to grow. The NZ arm of STA Travel was placed into voluntary administration after its Swiss parent company STA Travel Holding AG appointed administrators. The govt announced a $47.6m scheme to partially reimburse refunds and credits to travel agencies who get money back for customers. It's estimated $690m of NZers' money is locked up because of travel cancelled due to covid-19.

Property

Property for Industry's first-half net profit fell 66.3% to $15.5m, largely reflecting a $7.8m drop in the value of its properties compared with the year-earlier $23.4m gain. The value of the portfolio at June 30 was $1.47b.

PO Box 25120, Wellington 6140, New Zealand
PHONE 04 385 6249 EMAIL hugo@thehugogroup.com www.thehugogroup.com
THE HUGO GROUP