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Assessing the economic and political environment in New Zealand

November 13 2020 | Confidential to HUGO members

Ardern's first big challenge: a surprise housing boom Page 2

No sooner had second-term PM Jacinda Ardern sworn in her cabinet and a political firestorm blew up in the govt's face. News of house price inflation nearing 20% landed just as the Reserve Bank was set to pour yet more billions of cheap lending into the market. Adrian Orr softened the blow somewhat by bringing forward LVR controls to March. But the CGT-free-for-life PM appeared toothless. Trading banks began to impose LVRs ahead of March.

Auckland stays at level one, but masks are back

The govt left Auckland at level one this afternoon despite the worrying discovery of a case of community transmission of a CBD worker living next to an MIQ hotel, but compulsory mask wearing on planes from Monday was announced.

Inside Labour's big, diverse and young Cabinet Page 3

Labour's 50.0% vote share after the counting of specials was the party's highest since 1938 and gave Ardern the power to appoint the first Labour-only Cabinet since 1984. It meant no specific concessions to the Greens, albeit with ministerial roles outside Cabinet. She stamped her mark across the executive, appointing the most Māori, Pacific, young and gay ministers in history.

The winners and losers, and who and what to watch for Page 3

Grant Robertson's role as the PM's right-hand-man was codified and strengthened with the new roles of Deputy Prime Minister and Infrastructure Minister. He is now clearly the orchestator of the Government's big projects and priorities without Winston Peters or the Greens in the way.

An RMA maestro and a surprise return to relevance Page 3/4

David Parker's role as the maestro of RMA replacement is reinforced as Oceans, Fisheries and Environment Minister. Without the travel-heavy Trade role and not having to wrangle MBIE as Economic Development Minister, he can focus on enacting the heaviest legislative revamp in 30 years. He can also rark up the big tech firms as Revenue Minister and campaign hard for the Lake Onslow project. David Clark's return from the wilderness puts him at the centre of coming debates about regulating supermarkets, building materials and card fees. Michael Wood's elevation to Transport and Workplace Relations makes him a key player too.

Adrian Orr stuck between rocks and hard places galore Page 6

RBNZ governor Adrian Orr faces having to feed the real estate dragon with lower interest rates while also restricting banks from shoveling in too much leverage. This week he detailed an extra $28b of ultra-cheap lending to banks in the hope they will pass lower rates on to borrowers.

The firms doing surprisingly well during covid-19 Page 7

The corporate reporting season is revealing many more unexpected winners than losers in the wake of covid-19. NZME, Sky Network TV, Mainfreight, Fletcher Building, Briscoe Group and Xero all produced stronger profits as TV viewers, couch-buyers and couch sellers spent up large.

Text finalised November 13
Contact: hugo@thehugogroup.com.

Ardern's first big challenge

The perennial political debate about what to do about yet another housing boom is raging and looks like delivering the govt its first big setback.

REINZ figures this week showed median prices rising 19.8% nationally in the year to October, just as the Reserve Bank was about to pump in more low-interest rate lending fuel.

While the RBNZ will bring forward to March the reimposition of higher loan-to-valuation ratios, the prospect of a hot summer for real estate action is real.

Central bank spokespeople insist that the trading banks can impose such restrictions earlier, and the ASB and ANZ have broken ranks, taking one early step in that direction *(see Domestic Economy section).*

They are also unapologetic about the extent to which the 'wealth effect' on consumer confidence is an intended consequence of accommodative monetary policy, even as it pushes house prices higher.

The issue is especially lively because it is an easy stick for Labour's govt's critics on the left to beat the govt.

Ardern has made it clear there will be no change to benefit rates before Christmas, that there is nothing the govt can do to prevent house prices rising apart from eventual RMA reform, eventual urban densification and eventual faster house-building.

And capital gains and wealth taxes remain off the table. This is creating a testy political dynamic among its own supporters that the govt has not prepared for.

It expected, before the election, to have to negotiate with the Greens and allow a range of Green policies to be advanced. It would then have been able to blame the Greens to blunt the inevitable backlash from the right and the 'middle NZers' who had voted Labour.

Instead, it has an absolute majority and risks, to its supporters on the left, looking not only unable to act, but also unwilling to do so.

Exchange rate issue next?

The next challenge for the govt could yet prove to be an increasingly strong NZ dollar.

With the economy apparently in better health than anticipated in the ninth month since lockdowns started, the likelihood of negative interest rates next year is diminishing.

The need not to stoke house prices any further also takes the pressure off further borrowing cost cuts.

However, that is leading to a rally in the NZD, now close to US70 cents.

A large part of NZ's unexpectedly resilient economic performance is the role of strong global agricultural commodity prices so far, assisted by a weaker kiwi dollar.

Now, with the exception of dairy products, the outlook for some of NZ's traditional agricultural exports is somewhat weaker, just as the exchange rate is rising.

None of this suggests the govt is about to change its stance on RBNZ independence. That is far too large a step to take. Both Jacinda Ardern and Grant Robertson looked shocked when asked by a journalist this week whether the RBNZ's independence needed to be reviewed. However, that view is becoming increasingly prevalent among economists who see central govts becoming the primary driver in an age of very low interest rates and covid-inspired recessions.

The border and trade missions

Ardern's first major speech post-election made clear the govt has **no intention to loosen border settings before Christmas**. She made it clear the govt believes NZers want a Christmas break and also that the govt was **far from confident that private providers could be used to offer more quarantine facilities**.

The need for nursing and security (read Defence Force) staff to help run such facilities would strain the existing available workforce.

Ardern nominated a trade mission as a high priority as soon as international travel started to become possible again. She put visits to the **UK, Europe, US and China** at the top of the list.

David Parker gave a climate change conference this week a flavour of the C**abinet's internal thinking on how long it will take for a vaccine to be available,** saying the pandemic was probably past the half-way mark, with a return to normality possible in the second half of 2021. It would be a **"hard six months"** before then, he said.

Other early priorities

In the same speech, the PM also foreshadowed an focus before Christmas on rolling out its small business loan extensions. The IRD's SME cashflow loan scheme, which was to have closed to applicants in Dec, will continue for another three years, and loans will be interest-free for two years instead of the original 12 months. Further new funding for SMEs is also being investigated.

The govt appears to be judging that SMEs and trading banks are mutually nervous of one another and that central govt should find new ways to pick up the slack.

Act's David Seymour accusing the govt of "communism by stealth".

Also on the agenda is green-lighting some big projects with special RMA-diversion powers created in covid-19 legislation, although it does appear the phrase "shovel-ready" has been quietly shelved as a source of political liability.

Possible candidates include the $620m **Manawatu Gorge** replacement project (stuck in the Environment Court since March) and the $250m **Awakino Gorge to Mt Messenger** project linking Taranaki to the King Country (stalled awaiting High Court approval and a deal with one intransigent land owner).

Labour's big and wide Cabinet

Jacinda Ardern stamped the authority of Labour's record-breaking election all across its govt-enabling deal with the Greens and her first Labour-only Cabinet.

It included a stack of surprises, a few newbies, and gave a couple of older ones a second chance, but not **Phil Twyford**.

Nanaia Mahuta was named Foreign Minister, although Ardern pointed to the way **Helen Clark** had become a type of pseudo Foreign Minister alongside **Winston Peters** in the later years of the last Labour Government as a type of model.

Mahuta was one of a large contingent of Māori MPs elevated into ministries, including a record five in cabinet and six overall.

Grant Robertson remains as the PM's right hand man, and that role is now formalised and expanded with him becoming Deputy PM and Infrastructure Minister.

Ardern said Labour's Deputy Leader Kelvin Davis had asked not to get the Deputy PM role so he could focus on other areas, including Oranga Tamariki and Corrections.

Robertson is firmly in control of the purse strings and will be the chief cat herder in Cabinet on the big spending decisions.

David Clark and **Meka Whaitiri** were given second chances. Clark in particular recovers some significant relevance as the Minister of Consumer Affairs and Commerce, Minister of the Digital Economy and Communications and Minister of SOEs and Statistics.

He will be in charge of any action flowing from the much-hyped competition inquiries into supermarkets and building materials, and any action to regulate card payment fees.

The govt relations people for **Foodstuffs, Progressive (Woolworths Australia), Fletcher Building and Carter Holt** will be scrambling to get appointments in Clark's diary, as will the lobbyists for **Visa, Mastercard, Paymark, Retail NZ, ASB, ANZ, Westpac and BNZ.**

Electricity sector politics - a fine balance

Meridian Energy has taken the brunt of the criticism for spilling water during flooding last Dec and keeping wholesale spot power prices higher than expected, leading to an **Electricity Authority** investigation into whether an Undesirable Trading Situation (UTS) took place.

However, a further discussion paper on the issue suggests there may be other factors at play. It points not only to gas and transmission constraints in the North Island potentially affecting the situation, but also a new issue.

That is **Contact Energy's automation of its spill-gate system to deal with floodwaters.** The system acts as a safety valve, but without human intervention. As a result, its impact on the wholesale market when triggered has come into focus for the EA.

The investigation **comes at a delicate time for the generator-retailers,** which are under sustained attack from small-scale retailers who thrived mid-decade when wholesale prices stayed reliably low for years, but are struggling to maintain customers now that prices are both much higher and more volatile.

Industrial users are weighing in too. High wholesale prices, along with transmission price disputes, underpin the **Rio Tinto** decision to close the Tiwai Point aluminium smelter, **Bluescope's NZ Steel** to adjust production at the Glenbrook steel mill, and present issues for other big users such as the Marsden Point oil refinery, **Methanex**, and pulp and paper processors such as **Norske Skog**.

The govt is aware that a **narrative is developing about the 'hollowing out' of NZ heavy industry.**

Its response to this is a concerted effort to find ways to manage dry-year hydro risk without tying marginal spot prices to the price of gas-fired generation.

This is allied to the solid desire to push hard for 100% renewable electricity and to **make that electricity cheaper to encourage long-term investment in 'green' energy-intensive exports.** PM Jacinda Ardern described this as a "golden ticket" for NZ product branding in export markets in her first major speech to business leaders since the election.

The UTS inquiry, if it finds against the generator-

People moves

The **Council of Trade Unions** appointed Craig Renney, Grant Robertson's key economic policy adviser in recent years as its chief economist and policy director. He previously worked at The **Reserve Bank, Treasury, and MBIE**.

The **Labour Party** appointed **Rob Salmond** as its new General Secretary.

retailers, may yet provide political cover for policy decisions to current wholesale market arrangements.

Note also that the outcome of the UTS inquiry will be concluded under new EA leadership now that **Brent Layton** – a staunch advocate for current market arrangements – has vacated the chairmanship.

Making the case for Onslow

Top of the list, of course, is the $4b+ Lake Onslow pumped hydro scheme, currently the subject of a $30m scoping study and the object of plenty of fear and loathing in the generation sector.

Onslow got important support in Auckland this week from Environment Minister David Parker, speaking at the EDS Climate Change + Business conference.

While he was clear that if it didn't stack up, the govt would look elsewhere, Parker expressed deep scepticism about the generators' opposition, which largely revolves around arguing that other, cheaper options – including keeping fossil fuel back-up in the mix – are available.

Past experience told him that the industry was crying wolf.

The project's creator and chief cheerleader, Keith Turner, is convinced that by smearing the massive cost of Onslow across all electricity users, it would create an "insurance policy" against volatile wholesale electritICY prices" and give NZ a huge, one-off productivity gain as well as a major shunt towards decarbonisation.

The intoxicating nature of this idea at the highest levels of the Cabinet should not be underestimated.

The **EDS climate change conference exuded a much greater sense of purpose and urgency this year**. There was a greater mixture of attendees from corporate, central and local govt agencies and boards, and influential NGOs. With climate change action firmly on the current govt's agenda, unimpeded by NZ First's opposition to significant action, there was a sense at this conference that what has often felt like a duty attendance had become a 'must attend'.

However, attendees hoping to hear Parker endorse any move to increase the uptake of EVs through the use of so-called '**feebates'** would have been disappointed. That is apparently a **Greens policy, and therefore off the table.**

China relationship: new era

Attendees at a **Diplosphere** event in Wellington this week to consider the US-China relationship under a new presidency were treated to some classic diplomatic shadow-boxing. The Chinese ambassador, **Wu Xi**, did not attend in person but beamed in from her embassy by Zoom, allowing her to dodge questions. It also allowed her to listen to a highly critical assessment of China's swerve to autocracy from the Dominion Post's new editor, **Anna Fifield**, without having to respond. Fifield's last job was Beijing bureau chief for The Washington Post. Wu, a high-lifer to date in the Chinese foreign ministry, is also seen as a moderate in a regime that is increasingly autocratic. Her decision not to attend in person may also portend an element of self-preservation. The US ambassador, **Scott Brown**, was a no-show.

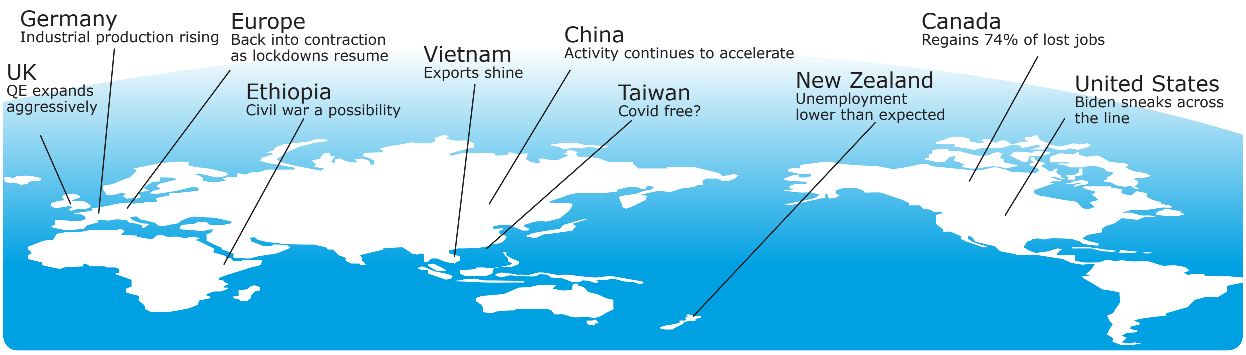
Mme Wu's address was intriguing for its articulation of **an apparently contradictory proposition:** that President Xi Jinping's newly minted five-year plan – largely ignored in local media obsessed with the US election – embraces a rules-based global order and multilateralism, at the same time as regarding its domestic economy as its first priority, with its global trade and economic engagement second.

Dual circulation vs Belt and Road

This concept goes by the term "dual circulation" and is at the heart of the Chinese govt's new articulation of its global strategy.

It effectively also replaces the 2015 'belt and road' strategy, which Beijing is starting to quietly retire in favour of a more inward-looking, less economically risky approach. Belt and road, as well as being seen

The world at a glance



as geo-politically expansionist, also saw China build up huge US dollar-denominated offshore debt, too often owed by govts whose ability to repay it is far from assured.

Quite **what dual circulation means in practice for NZ will emerge over time**, but is consistent with a more mercantilist and protectionist regime that is less welcoming to foreign investors in China and more willing to punish countries using opaque non-tariff trade barriers.

Australia is the most obvious current example of this treatment. Former **APEC** Secretary-General and now **Infrastructure Commission** Chair, **Alan Bollard**, suggested **Beijing is deliberately making an example of Australia** as a large enough economy for others to notice while being small enough that a low-level trade war will not affect relations at home.

Bollard said NZ had not been subject to this, but that there was always a risk it could happen, particularly as the consensus of speakers at the event was that a **Biden** administration will be just as hard on China as the **Trump** administration, even though it will do so through more conventional diplomatic means.

Among those means is likely to be the reconstruction of traditional alliances and friendships, which Trump was willing to burn off.

That could put pressure on NZ to 'choose sides' to a greater extent than has previously been necessary.

The mood music in recent months between Beijing and Canberra is not auspicious, with PM Scott Morrison aggressively pushing for an inquiry into China's handling of covid-19 and his govt rejecting various Chinese bids for local assets.

Meanwhile, China has slowed or blocked Australian exports of barley, wine, sugar, timber and coal. Only the key iron ore export trade is unaffected, in part because China has no obvious alternatives of the necessary large scale, given it is the main ingredient for steel mills powering infrastructure spending there.

No early action on CPTPP

The same seminar saw the expert panel express great scepticism about any early enthusiasm by the Biden administration for reviving US membership of the CPTPP or to advance an FTA with US.

The new administration will likely take until the second half of next year just to confirm the slew of senior appointments. Focus will be slow to come onto trade issues.

Coming up …

In and around Parliament and the Beehive, the week after next is shaping up as a busy one. It begins on Saturday Nov 21 when the National Party holds its AGM and is expected to re-elect President Peter Goodfellow.

Then on Wednesday Nov 25 the RBNZ publishes six monthly Financial Stability Report (FSR), including commentary on housing market risks and LVR controls.

The bank's news conference will be competing with the opening of Parliament for a 53rd term on that Wednesday, including the swearing in of new MPs. Then on Thursday the Governor General will deliver the PM's speech from the throne in Parliament outlining govts agenda.

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	2.2	7.9	5.5	2.1	2.9	2.8	2.0	2.4
Australia	17.8	2.7	1.8	-4.0	2.7	3.3	1.9	1.6	0.6	1.5	2.1
United States	11.3	2.9	2.2	-4.4	3.8	2.6	2.4	1.8	1.1	1.9	2.2
Japan	7.1	0.3	0.7	-5.6	2.6	1.1	1.0	0.5	-0.1	0.1	0.7
Eurozone	5.8	1.9	1.3	-7.7	5.5	2.0	1.8	1.2	0.4	1.0	1.4
South Korea	3.4	2.7	2.0	-1.2	3.3	2.9	1.5	0.4	0.4	1.1	1.9
United Kingdom	3.1	1.3	1.5	-10.1	6.5	2.0	2.4	1.8	0.8	1.5	2.0
Singapore	2.3	3.5	0.7	-6.2	5.8	3.1	0.4	0.6	-0.3	0.9	1.9
Hong Kong	2.6	2.9	-1.2	-6.8	4.5	2.5	2.4	2.9	0.9	1.7	2.2
Taiwan	2.4	2.7	2.7	0.5	3.1	2.6	1.4	0.6	-0.2	1.1	1.3
Malaysia	2.1	4.7	4.3	-6.1	6.8	4.5	1.0	0.7	-1.1	1.7	2.5
Indonesia	2.0	5.2	5.0	-1.9	5.1	5.2	3.2	2.8	2.2	2.6	3.7
Thailand	2.1	4.1	2.4	-7.7	4.6	3.6	1.1	0.7	-1.1	0.9	1.3
Philippines	1.7	6.3	6.0	-7.5	7.7	6.0	5.2	2.5	2.4	2.8	3.0
Vietnam	1.5	7.1	7.0	2.4	7.7	6.4	3.5	2.8	3.3	3.1	3.8
India	1.4	6.8	4.2	-8.9	10.5	6.9	3.4	4.8	5.4	4.6	4.7
Canada	1.5	2.0	1.7	-6.0	5.2	2.7	2.3	1.9	0.7	1.7	2.1
NZ Trading Partners	100.0	4.1	3.3	-2.6	5.4	3.8	2.0	2.0	1.4	1.7	2.1
Forecasts for New Zealand											
Consensus		3.2	2.3	-5.5	4.3	3.8	1.6	1.6	1.5	1.2	1.5
BNZ Forecasts		3.2	2.3	-4.9	1.5	4.2	1.6	1.6	1.6	0.8	1.3
The World		3.2	2.5	-4.6	5.0	3.5	2.9	2.7	2.0	2.4	3.1

Feeding and fighting the dragon

The **Reserve Bank** found itself at the centre of an economic and political storm this week as it grapples with the competing needs of a very-low-inflation-economy needing lower interest rates and housing market inflation surging to double-digit levels, much to the joy and fear respectively of homeowners and first home buyers.

Everywhere it turns, the central bank is accused of both feeding the real estate dragon, or tying it down so much it can't move. It is stuck between the increasingly noisy interests of aspiring home owners, nervous politicians, feeling-put-upon bankers and quietly-thrilled landlords.

Governor **Adrian Orr** and his Monetary Policy Committee chose on Wednesday to walk and chew gum at the same time in the hope of placating all those competing players. The bank offered a year's extension of capital relief to the banks in the hope of tempting them to lend. Then with the other hand it brought forward the return of LVR controls by two months to March to restrict the amount of riskier lending to landlords and first home buyers.

Later in the day the central bank announced the details of a foreshadowed a cheap loan plan, known as a Funding for Lending Programme (FLP), to feed up to another $28b of near-zero-percent credit into the economy over the next three years to lower interest rates and encourage spending and investing by wealthier-feeling home owners. It kept its $100b plan to buy govt bonds intact.

The RBNZ plans to start lending directly to banks next month at the Official Cash Rate of 0.25%, but without any conditions on the first two thirds of the loans. Orr said he was confident the banks would pass on the lower interest rates and lend extra into the economy, but that's not what has happened since Aug.

There's also the prospect of reducing the OCR and that FLP lending rate to below 0% from March next year.

But the danger for Orr and the govt is the banks take the cheap funding to replace more expensive local term deposit funding, and simply pocket the difference as higher profits. Currently, the banks aren't allowed to pay those profits back to Australia as dividends. The dividend suspension order from March was extended quietly in Wednesday's announcement until next March at least.

Orr's battles with the big Australian banks, led by **ANZ NZ** chair and ANZ Group director **John Key,** look far from over.

Exporters leading recovery

Despite the global demand shock of covid-19 and growing logistics issues, primary products export values and volumes are hitting record highs.

NZ's red meat exports to the US lifted 50% to reach $400m in the Sept quarter, closely followed by a 42% rise to the UK ($71m) and Germany, a 25% increase to $70m. This offset a 25% decline to China ($530m) although the value of sheepmeat and beef exports to China remains near historic highs.

Overall, exports in the third quarter were $1.69b, unchanged from the same period in 2019. For the year ending Sept 2020, exports were up 8% to $9.39b from the previous year.

Global prices are helping

The ANZ World Commodity Price Index gained 1.9% in Oct, reversing the downward trend in the past couple of months. Recent strength in dairy prices has been the main factor driving the index higher. In local currency terms the index also lifted 2.5% with the NZD broadly stable on a TWI basis during Oct.

But there is a cloud on the horizon. The Kiwi dollar has jumped from 66 USc to almost 69c in Nov, largely due to waning expectations of negative rates here and a smaller than expected plan for cheap lending to banks.

Net migration collapsing

Border restrictions and a steady exodus of temporary workers and backpackers has seen net migration collapse in the six months to the end of Sept.

Despite the PM's comments about an influx of cashed-up Kiwis driving the housing market, Stats NZ reported overall net migration of 2,500 in the half year encompassing covid-19 restrictions.

That is down from a net gain of around 20,000 in similar autumn/winter periods in past years. A net gain of 7,200 NZers was offset by a net loss of 4,700 non-NZ citizens.

Jobs market holding up well

Unemployment hit 5.3% in the Sept quarter with the number of unemployed people rising by 37,000 to reach 151,000, the largest quarterly rise in unemployment since the series began in 1986. The next largest rise was in the June 2009 quarter during the GFC, when the number of unemployed people rose by 18,000. There were 22,000 fewer employed people and the underutilisation rate rose to 13.2%, although the participation rate remains very high at 70.1%.

The unemployment numbers were not as bad as many predicted at the beginning of the pandemic, when many feared it could rise close to or above 10%.

Primary sector, food and beverages

Strong Chinese demand for dairy products and cheap finance gave **Fonterra** enough confidence to keep its forecast for earnings at 20-35 cents per share.

ANZ revised up its farmgate milk price forecast for the current 2020-21 season by 20c to $6.70/kg MS and issued its initial 2021-22 season forecast of $6.40/kg.

Synlait Milk closed a deal with an unnamed multinational to make nutrition products using existing capacity. Synlait will need to spend $70m over two years to customise its plant.

It plans to raise $200m at a discount, largely from its two cornerstone shareholders, to upgrade facilities in preparation for the new customer.

Synlait also did a confidential deal with **NZ Industrial Park** and **Karl Ye** on old land covenants at Pokeno that were preventing construction of a new processing plant

It also warned consumer-packaged infant formula volumes would be lower than the July 2020 financial year with a lower profit as a result.

MBIE is investigating the potential dumping of frozen potato products from the Netherlands and Belgium. **Potatoes NZ** said exports from the EU to NZ jumped by 50% in June - putting the $1b-a-year potato industry here at threat.

Horticulturists warned they are facing large workforce shortfalls unless they are allowed to bring in foreign workers.

The fishing industry is also struggling with worker shortages and weak demand for premium fish for restaurants globally.

Sanford's annual net profit almost halved to $22.4m after revenues fell 14% to $468.8m, due to lower sales to restaurants and hotels in America in particular.

Manufacturing and construction

There was good and bad for two of NZ's biggest construction firms in the wake of the covid-19 lockdowns, in both horizontal and vertical infrastructure.

Fulton Hogan reported a $222m profit and $79.5m in dividends as after-tax profit rose 28% in the year to June 30, but it took some heat as the firm was paid $34.3m in wage subsidies, raising questions about the scale of the dividend. Fulton Hogan said it made a partial reimbursement.

But **Fletcher Building** fared even better, breaking a string of tough announcements for shareholders.

Fletcher shares rose 21% this week after it reported its operating profit in the four months ended Oct was up 55%. Earnings before interest and tax were $227m for the four months, up $80m from $147m in the same period last year. For once, ceo **Ross Taylor** was able to smile broadly on his conference calls.

Transport and logistics

Another surprise winner in the covid-19 recession has been logistics firms, who are flat out moving online orders and have pricing power to bolster profits as shipping and air freight rates have risen.

Shares in Mainfreight briefly hit $60 each this week, after it reported a 7.2% rise in half year sales and a 23% rise in net profit to $72.9m. That values the now-global firm at over $6b and is triple what it was valued at in late March, when covid-19 struck.

Maersk and **Mediterranean Shipping Company (MSC)** are to levy congestion charges of up to US$300 a container on **Ports of Auckland's** customers. This comes in the wake of delays of up to 12 days, which the port blames on Australian supply disruption and a lack of manpower.

Energy and resources

Mercury sold its interest in the Hudson Ranch 1 geothermal power station in California, to a subsidiary of **Macquarie Infrastructure Partners V** for about NZ$40m.

Trustpower trimmed its full-year earnings forecast to between $185m and $205m from $190m to $215m for the year ending March, after dry conditions reduced generation volumes and covid-19 restrictions slowed its telco expansion.

Banking, finance and insurance

Two of NZ's big four Australian-owned banks reported sharply lower annual profits to account for bad debt provisions assumed because of the covid-19 crisis.

Westpac NZ's net profit for the year ended Sept 30 fell to $550m from $964m as bad debt provisions rose to $320m from $10m the previous year.

Bank of NZ's annual net profit fell 25.4% after bad loans charges nearly trebled to $300m. Net profit for the year ended Sept 30 fell to $762m from $1.02b.

Natural disaster insurance claimants will no longer deal directly with the **Earthquake Commission,** with private insurers taking over the process of handling applications between April and June next year.

Online personal lender **Harmoney** lodged a prospectus which would value the company at A$353m in an IPO on the ASX.

Heartland lowered its floating home loan rate to 2.50% p.a. – the lowest floating rate offered by a bank in NZ. It is also offering 1.99% 1-year fixed, 2.35% 2-year fixed, 2.45% 3-year fixed.

The **Financial Markets Authority** finalised rules for a full Financial Advice Provider licence and confirmed three classes of financial advice service

Telcos, media and entertainment

News publishing firms and NZ's biggest pay TV operator are also among those doing better than expected in the covid-19 rebound.

NZME upgraded its earnings forecast and outlined the terms of a return to dividend payments in the second half of next year. Advertising revenues have fallen less than expected partly because of the 'Harvey Norman effect' of front-page advertising by furniture, homewares and home improvement firms.

The announcement came ahead of an investor day next Monday and at the end of a year in which the company was hit by the covid-19 crisis, cut costs and debt, lost a chairman, gained a new major shareholder, and is showing signs of resilience.

NZME expects to report ebitda of $63m-$66m for calendar 2020 year, in line with last year's pre-covid $65m ebitda. Its shares have more than trebled since March, in part due to US private equity investor, **Osmium**, building up a 13.2% stake in recent months.

Sky Network TV also upgraded its operating earnings guidance for the current year, citing lower churn from satellite subscribers and better than expected results from its new beefed-up Neon entertainment streaming service.

That was despite a lack of Super Rugby and test matches over the winter. Homebodies are streaming a lot more entertainment in these days of covid-19 lockdowns. Sky TV bought Lightbox from **Spark** in Feb and folded it into Neon.

Sky said cost cutting also meant annual ebitda for 2020/21 would improve to between $140m and $155m from earlier guidance of between $125m and $140m. Net profit is expected to improve to $20m-$30m from $10m-$20m .

Some tech companies are also doing very well during covid-19. **Xero** reported its half year profit sprinted to $34.5m from $1.3m in the same half a year ago. While total subscriber numbers rose 19% to 2.45m, the pace of growth slowed, with 168,000 new subscribers in the six months, down from the 239,000 it added in the year-earlier period.

Auckland-based artificial intelligence company **Aider** confirmed a NZ$4m capital raise from ANZ Australia's investment division **ANZi.**

Wholesale and retail

The boom in homewares for stay-at-homers also helped **Briscoe's Group**. It reported sales rose 15% for the 13 weeks ended Oct 25 up $21m at $161.3m, taking year-to-date sales up 2.4%.

Capital markets

ACC took an 18% stake in **Les Mills International**.

Corporate actions

The first **Provincial Growth Fund** loan to a commercial business was repaid. Whangarei based Maungatapere Berries paid back a $2.28m loan to expand its hydroponic berry growing operation.

Courts and regulations

Cavalier Corp served a settlement notice on **Kinleith Land and Infrastructure** after its failure to settle a $24.6m sale deal for its Auckland manufacturing site

Hebei Huaneng argued it should be allowed to enforce a $23m judgment in China here. It is seeking to enforce guarantees from **DeMing Shi** as part of a contract his company, **Boen Capital Co**, had supplying coal to the Chinese firm.

The Court of Appeal reduced the fine **Steel & Tube** received for wrongly saying its reinforcing steel mesh had been independently tested against earthquake standards. The court ruled it must pay $1.56m, down from just over $2m ordered in the High Court.

People news

Air NZ appointed current **Metlifecare** cfo **Richard Thomson** to replace **Jeff McDowall**, who will leave after managing the airline's capital raise in the first half of 2021. Metlifecare is being taken over by **EQT**. Thomson moved to Metlifecare from Air NZ.

Former National Agriculture minister **Nathan Guy** missed out a seat on **Fonterra's** board with incumbent director **Brent Goldsack** and new director **Cathy Quinn** elected.

Summerset ceo **Julian Cook** will retire next March.

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