NZ Capital Markets Performance

Background
- NZ Economy has been in recession
- Weak domestic demand
- Poor commodity prices
- Repeated collapse of finance companies
- Return by government to fiscal deficits
- Recent change in government from centre left to centre right

Government Bond Market
- Gross issuance forecast to increase from 23 to 57 bio next four years
NZ Capital Markets Performance

Government bonds on issue and turnover

- Average daily turnover
- Government bonds outstanding (RHS)

Data ranges from 2000 to 2009.
NZ Capital Markets Performance

- Secondary market activity has declined due to:
  - High % offshore investors holding to maturity
  - Recent fiscal surpluses reducing market liquidity
- NZ Treasury initiatives to improve liquidity & participation
  - Establishment of Bond Market Working Group
  - Introduction of a new ten year bond
  - Establishment of `tap’ & `reverse’ tenders
  - Introduction of larger tenders.
  - Conducting global road shows to promote bonds
NZ Capital Markets Performance

Non-resident holdings of New Zealand government securities

- Proportion of all government securities held for non-residents
- Treasury bills (RHS)
- Government bonds (RHS)
The Kauri Bond Market

- Market developed in 2004
- NZD denominated bond originated by foreign issuer
- Issuers typically Supranationals i.e. European Investment Bank
- Investors a mix of onshore and offshore institutions
- 40% of issues held offshore
- Market has grown at expense of Euro-kiwi & Uridashi markets
- July 2007 saw spike in issuance due to RBNZ acceptance of AAA Kauri’s as security in its domestic operations
- Issuance has since slowed but will remain an important part of the NZ Capital Markets due to diversity of security for RBNZ and local banks
NZ Capital Markets Performance

Graph 1 Kauri Issuance

Source: Bank of New Zealand
Offshore New Zealand dollar denominated bond issuance
(Eurokiwi and Uridashi bonds)

Source: Reserve Bank
Other Debt Capital Markets

- This market continues to see re-pricing across all assets
- Remains a viable source of funding for good quality credits
- Investor dissatisfaction with equity & managed funds = strong interest in senior fixed income investments
- Retail Deposit Guarantee scheme increased retail issuance from 26% in 2007 to 56% in 2009
- Yields for Corporate & Local Body issuance peaked early 2009
- Short term bank funding now 40 over & 5 Yr 130 over swap
NZ Capital Markets Performance

Source: Reserve Bank
NZ Capital Markets Performance

Equity Market

- NZ Equity Market cap has declined relative to GDP (graph)
- Ave size of listed companies has remained constant where comparative companies in other countries have increased
- Value of domestic equity turnover relative to GDP is small
- Equity transactions per head of population remain relatively low
- NZ equity market has a higher dividend yield compared to other countries
- Performance of the NZ equity market challenged by:
  - Geographic isolation
  - Dependence on agriculture
  - Small population
NZ Capital Market Performance

Equity market capitalisation

% of GDP vs. Year

% of GDP

Inland Revenue Discussion Paper Release – NRWT & AIL

- Tax treatment of Corporate Bonds
- Proposes the zero rating of NRWT and Approved Issuer Levy
- Current impediment to growth of Corporate Bond market
- Issuer often pays cost of NRWT and/or AIL
- Applied to qualifying bonds
  - Held by at least 100 investors who are not associated
  - No investor holds more than 10% excluding underwrite
- Would result in greater offshore investor interest
Major Developments

Extension of Retail Deposit Guarantee Scheme
- Implemented late 2008 to expire Oct 2010
- Extended to Dec 2011
- New minimum credit rating of BB
- New fee structure based on risk
- Will result in continued growth in retail issuance versus W/S

Regulatory Change and Developments
- Financial Advisers Act 2008
  - Regulation of any person providing advice that results in an investment decision.
  - Focuses on individual rather than organisational compliance
Major Developments

- FAA Continued
  - Key components of the Act cover disclosure, competence and dispute resolution
  - Act to be applied in 2010

- Reserve Bank Amendment Act 2008
  - Increased regulatory authority given to the central bank
  - Non-bank deposit takers will need to comply to a number of governance measures

- Financial Service Providers Act 2008
  - Stipulates obligations of advisers with regard to dispute resolution

- Anti-Money Laundering
  - The Ministry of Justice is leading work on this issue to bring NZ into line with the Financial Actions Task Force (FATF) standards
New Zealand

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