Current Developments in the New Zealand Stock Exchange

By Tim Bennett
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New Zealand's capital markets are riding on the crest of a wave. But unlike past peaks in the equity market that have been few and far between, the wave we are currently riding is the first in a set of breakers that will transform our capital markets and support a step function change in New Zealand's economic growth.

1. Introduction

It has been a tremendous past 12 months for the markets. The NZX 50 Index is up 23.5% in the year to September 30; trading volumes are up 38.6%; and capital deployed into the market from IPOs, secondary capital raising and sell downs by strategic investors have totalled $3.3 billion. Given similar numbers from other markets globally, it would be easy to suggest that our market is merely riding on the interest rate fuelled equity boom that we have seen globally.

But if we delve deeper into the numbers, we see the signs of a series of well-planned structural changes in the capital markets beginning to appear. In the year to June 30 2013, retail investor ownership in the market rose by 3.1% to 26.4%. This is the first sizable jump since 2006 and while driven partly by the interest rate environment, is also the result of the Government's share offer programme; a number of attractive listings; and a renewed interest in equities as an asset class. This has been supported by an improved regulatory environment, in particular through the introduction of the Financial Markets Authority, which has begun to restore trust in our financial markets.

Overall, New Zealand ownership of NZX listed companies has increased by 2.1% to 66.9% in the year to 30 June as foreign investors sold down stakes in companies such as Sky TV and Trade Me, reversing the trend we saw in the 2000s, where foreign majority owners tended to take companies private.

Going forward, net inflows into the market will be underpinned by growth in New Zealand managed funds. These are now almost entirely driven by KiwiSaver funds, which are projected to increase by some 12% to 15% per annum over the next decade. Supporting this level of demand will require a continued growth in listings, some of which is evident already and some of which will develop through new market structures, such as the small-cap market NZX is developing. More new markets targeting different segments of the investor base and companies at different stages of the business lifecycle are likely to develop, made possible by the recently passed Financial Markets Conduct Act.

This expected growth in our capital markets will underpin New Zealand's economic growth through a broader range of capital raising options and a lower cost of capital. Of course, the reverse is true as well: a vibrant equity market is dependable on a sound economy.

Fortunately, New Zealand is a strong position on this front as well. Our global competitiveness has increased to 18th in the most recent World Economic Forum survey (ahead of Australia for the first time); we have a relatively strong middle class which will drive consumptive growth; six of our top 10 exports are soft commodities with growing Asian demand; and we have a tourism industry also supported by proximity to the largest and fastest growing region in the world.

We are therefore – if the stars remain aligned – at the beginning of a series of waves that will rebuild our capital markets. New Zealanders are saving more, in particular through KiwiSaver, and are investing in equities in a well-regulated marketplace, a trend that should continue for many years to come. This in turn is supporting the development of a growing financial services sector (advisors, fund managers and brokers), which combined with increasing net funds inflow and improved liquidity, provides the infrastructure required to encourage more companies to utilise the capital markets to fund their business growth.