BHP SPIN-OFF FINDS HOME

RESOURCES

BHP Billiton has signed a 10-year lease on a new office tower for its proposed $15 billion spin-off company, South32.

The spin-off, which will take control of BHP's aluminium, nickel, silver and coal assets, is expected to take up naming rights for the tower, in Perth. One of the city's biggest, the tower will be the base for South32.

Brookfield Property confirmed yesterday that South32 would lease about 8300 sq m in the 52-storey Bank West building at 108 St Georges Tce.

BHP shares closed 1.9 per cent lower yesterday at $27.97.

Profit slump for cleaner

MANUFACTURING

THE company behind White King cleaning products and Huggie fabric softener is warning of a profit slump amid tough trading conditions.

Pental says the cost of bringing forward planned TV advertising for White King will drag its first-half net profit down 16 per cent, from $2.15 million to $1.8 million.

It expects flat revenue for the half but is sticking with its plans to recommence regular dividends.

Pental is due to publish its results for the half next month. Formerly called Symex, Pental bought the White King brand in 2011.

Pental shares closed 2 per cent lower yesterday at 48c.

CONFIDENCE AT LOW EBB

THE ECONOMY

CHEAP petrol and holiday cheer are failing to lift the spirits of consumers.

Consumer confidence increased just a fraction last week, according to latest polling by ANZ and Roy Morgan, suggesting consumers are pocketing the savings from cheaper petrol rather than spending it.

Cheaper fuel and the usual seasonal uplift in January had failed to revive confidence, ANZ chief economist Warren Hogan said, suggesting a pick-up in the labour market was needed to stoke optimism.

The confidence index climbed just 0.3 points last week.

Kiwis thinking big again

Parity party is the talk of the Tasman

PAUL GILDER
THE DOLLAR

THIS year marks 40 years since New Zealand-born and bred racehorse Think Big swept to his second straight Melbourne Cup victory.

Now, thanks to an exchange rate bordering on parity with the Australian dollar, Kiwis are thinking big all over again when it comes to having an impact on our shores.

New Zealand's latter-day economic resurgence is poised to materialise in the most telling of ways for an Australian observer, with "little brother" just a few cents away from currency bragging rights.

The Aussie was fetching $NZ1.051 yesterday, up from a low of $NZ1.036 last week.

But the trend has been down sharply in the past few months, accelerating after Australia's latest quarterly growth figures fell short of expectations, while New Zealand's remain strong.

As recently as October 31, the Aussie was buying $NZ1.1304. It has fallen more than 7 per cent since.

Parity with the Aussie would be a first for the kiwi since it floated in 1985 — the Aussie floated two years earlier — and momentum, for now, is behind it.

Lower oil prices and a lack of business confidence are hurting big industry in Australia while New Zealand is riding a wave of demand for construction and so-called soft commodities, such as milk and cheese, thanks largely to its free trade deal with China.

That deal is now in its seventh year.

"There's an increasing correlation between the Aussie and commodity prices, which have had less of an impact on the kiwi, and that could drag us closer to parity," market analyst David de Ferranti says.

Westpac senior currency strategist Sean Callow said New Zealand's housing boom in the wake of the two Christchurch earthquakes and a sharp rise in immigration have supported its economy, while Australia's gross domestic product growth last year was sluggish at best.

"Go back to around 2011. Australia didn't have a recession but New Zealand had a genuine recession, five to six quarters of decline," Mr Callow said. "The cycles weren't aligned, and the Aussie powered ahead. But in the past 12 months it's been the other way around."

Performing against the Aussie is one thing, he says, but achieving parity is another altogether. Since the float of the kiwi in 1985, the Aussie has spent little more than 10 per cent of its time within 10c of its counterpart, and averaged $NZ1.216.

Mr Callow said the fact that New Zealand stopped lifting interest rates after July and Australia's central bank has resisted calls to cut, means the kiwi still needs a nudge to get over the line.

"There's been a lot of demand for the kiwi over the past couple of months, more than we can justify on economic fundamentals," he said.

"Even the Reserve Bank of New Zealand regards the kiwi as unjustifiably high. There's a good chance the Aussie will stabilise soon and push higher."

Victorian Tourism Industry Council chief Dianne Smith said the surging NZ currency will support an already strong tourism market.

"It's often a short-break market," she said.

The greater benefits for Victoria, however, could come through education, with more Kiwi students inclined to study and spend given such an attractive exchange rate.

If parity is to be achieved, the next major trigger could come tomorrow, when December's unemployment figures are released.

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Is the market going up in 2015? Can anyone predict it?

THE SHORT CUT
with ROGER MONTGOMERY

AT the start of the new year, investors usually turn to thoughts of returns. After strong performances in 2012 and 2013, the Australian equity market was a bit ordinary in 2014, finishing the year at around 5400 points — just marginally higher than where it started.

What then, to expect from 2015? Was the recent slowdown indicative of a hot market running out of steam, or a healthy market taking a breather before climbing the next peak?

Clearly what's needed here is an appropriately qualified expert, willing to step in with a well-reasoned prediction against which we might frame an investment plan. For clarity, the prediction should nominate a target level at which the benchmark ASX 200 index will finish the year (plus or minus 100 points).

Investment requires confidence, and to engender confidence, the expert will need to reference some facts and specific detail to make their case compelling. The list of potential facts and details is limited only by the imagination, but some sound choices would include things like GDP growth rates, political stability, interest rates, gearing levels, valuations, historical returns, foreign exchange movements, commodity price movements, consumer and business confidence .... the list goes on.

To complete the package, our expert should bring to bear substantial personal credibility and they should be willing to make their case with the confidence and force that befits a well-reasoned prediction from a credible expert.

All parties are happy here: investors have the waypoints they need to navigate often treacherous investment waters, the expert enhances their profile by setting out for a wide audience their well-reasoned arguments, and the media provides a channel by which all of this is brought together. Everyone's a winner.

At least, everyone would be a winner if markets were amenable to being predicted in this way. Unfortunately, the evidence doesn't seem to bear that out. The evidence seems to point to markets being highly unpredictable beasts, driven more in the short term by the collective mood swings of human beings, and less by rational argument.

One interesting piece of work on the value of expert predictions was done by Philip Tetlock, who teaches at the University of Pennsylvania. Over a 20-year period, Tetlock systematically gathered 82,361 predictions from 284 people who made their living "commenting or offering advice on political and economic trends".

Some of the conclusions that emerged from Tetlock's work included:

THE forecasts provided by experts did not perform noticeably better than forecasts generated by non-experts, random chance or simple rules.

THE experts were rarely held accountable for their forecasts.

THOSE experts with the highest profile tended to be slightly less accurate than those less well known.

The problem seems to be one of complexity.

Even with the best will in the world, highly complex systems don't lend themselves to forecasting, even by experts with many years of experience.

What these experts can do effectively, however, is entertain. Their forecasts might not have great predictive value, but people still want to hear them.

What then, of our view on the ASX 200? We think that it should finish the year at around 5724 points, plus or minus 100.

Roger Montgomery is the founder of Montgomery Investments