

# Rural Loan Report

05 April 2019

## Key Points

- Benchmark interest rates have touched record lows over the past couple of weeks.
- However, for farmers, proposed increases to bank capital requirements may offset some of these falls.
- All up, we expect interest rates for rural borrowers to remain very low by historical standards over 2019.

Benchmark Interest Rates (%)*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	1.75	1.75	1.75	2.46	↓
90-day bank bill	1.85	1.89	1.96	2.66	↘
1-year Swap Rates	1.70	1.86	2.07	2.80	↘
3-year Swap Rates	1.64	1.92	2.36	3.29	↘
5-year Swap Rates	1.77	2.05	2.62	3.64	↘

\*Rates current as at 29 March 2019; \*\*Outlook is over the next 6 months

## Benchmark interest rates touched record lows this month

**Benchmark interest rates have fallen to record lows.** Indeed, all rates – from 90-day bank bills through to the 10-year swap rate – have touched record lows over the past couple of weeks.

**Much of the recent falls owes to a change in the Reserve Bank's outlook for the Official Cash Rate (OCR).** In our view, we now expect the Reserve Bank to cut the OCR in May and August by a total of 50 basis points.

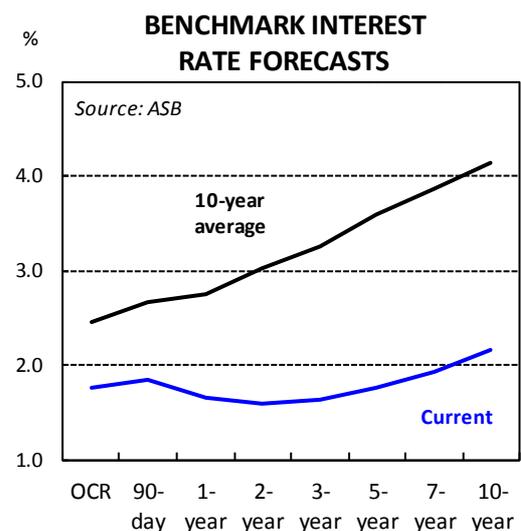
## However, there is a spanner in the works

**But farmers may not see the full benefits of these falls reflected in their borrowing interest rates.** Benchmark interest rates are falling, but the Reserve Bank is proposing to increase banks' capital requirements. These requirements will increase bank funding costs and hence customer borrowing interest rates, (at least) partially offsetting the impact of lower benchmark interest rates.

## Flagging the risks

All up and looking through the various changes, **interest rates for farmers are likely to remain low by historical standards**, particularly over 2019.

Looking beyond 2019 and in terms of direction, we judge that farmers' interest rates are likely to drift modestly higher over the long term.



**ASB Economics & Research**

Chief Economist  
Senior Rural Economist  
Senior Economist  
Senior Economist  
Senior Economist, Wealth  
Data & Publication Manager

Nick Tuffley  
Nathan Penny  
Jane Turner  
Mark Smith  
Chris Tennent-Brown  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

**Phone**

(649) 301 5659  
(649) 448 8778  
(649) 301 5853  
(649) 301 5657  
(649) 301 5915  
(649) 301 5660

[www.asb.co.nz/economics](http://www.asb.co.nz/economics)

 [@ASBMarkets](https://twitter.com/ASBMarkets)

**Disclaimer**

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.