

Rural Loan Report

14 August 2018

Key Points

- Benchmark interest rates have declined to near record lows over recent months.
- The Reserve Bank is on hold, but indicating that the Official Cash Rate needs to stay lower for longer.
- All up, we expect benchmark interest rates to stay low this year, with some chance they may go lower.

Benchmark Interest Rates (%)*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	1.75	1.75	1.75	2.70	➔
90-day bank bill	2.01	2.03	1.98	2.88	➔
1-year Swap Rates	2.05	2.17	2.03	2.98	➔
3-year Swap Rates	2.36	2.47	2.44	3.49	➔
5-year Swap Rates	2.67	2.74	2.78	3.84	➔

*Rates current as at 10 August 2018; **Outlook is over the next 6 months

Benchmark interest rates are nearing record lows

All benchmark interest rates have fallen over recent months. The 5-year swap rate has fallen over 30 basis points since mid-May, while shorter-term rates such as the 90-day bank bill and 1-year swap rates have fallen by 14 and 12 basis points, respectively.

Moreover, benchmark rates are nearing record lows. For example, at 1.99%, the 2-year swap rate is just 5 basis points above its record low set back in August 2016.

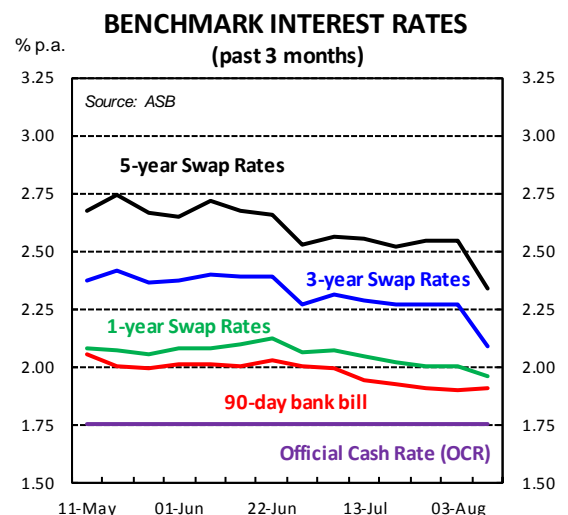
Short-term interest rates have eased as markets are increasingly flirting with the possibility that the Reserve Bank (RBNZ) might cut the Official Cash Rate (OCR). In addition, easing credit market pressures have contributed to recent short-term interest rates falls.

We don't expect the RBNZ to cut the OCR, but we expect the RBNZ to remain on hold in 2018 and most of 2019. In contrast, the RBNZ's recent forecasts showed that it expected to hike in late 2020. With regard to an OCR cut, the RBNZ stated: "we've been pushed nearer to that trigger point" by weak recent economic growth and slumping business confidence.

Interest Rate Outlook

We expect that NZ benchmark interest rates will remain near record lows over the remainder of 2018, with some chance they may go lower.

Heading into 2019, the risks to benchmark interest rates are two-way. Much will depend on how well economic growth holds up over the second half of this year, but either way, we expect rates to remain near historical lows.



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