

Rural Loan Report

15 February 2018

Key Points

- Benchmark interest rates have mostly been steady over recent months, although 5-year rates have lifted a touch.
- Meanwhile, all rates remain low compared to their 10-year averages.
- From here, we expect more of the same: little change in short-term rates, but long-term rates may drift higher.

Benchmark Interest Rates (%)*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	1.75	1.75	1.75	3.18	→
90-day bank bill	1.91	1.88	2.03	3.39	→
1-year Swap Rates	1.98	2.00	2.11	3.47	→
3-year Swap Rates	2.36	2.41	2.60	3.91	→
5-year Swap Rates	2.73	2.72	2.97	4.22	↗

*Rates current as at 13 February 2018; **Outlook is over the next 6 months

The Reserve Bank on hold, emphasizes balanced risks to interest rates

On 8 February, the Reserve Bank (RBNZ) kept the Official Cash Rate (OCR) on hold at 1.75%. Moreover, its Monetary Policy Statement contained little change from the last statement back in November.

The RBNZ doesn't expect to lift interest rates until late 2019. And in the press conference following the Statement, Assistant Governor, John McDermott, also raised the possibility of the next OCR move being a cut. Indeed, he noted that core inflation still "needs a little shove to get it towards the midpoint of the target range."

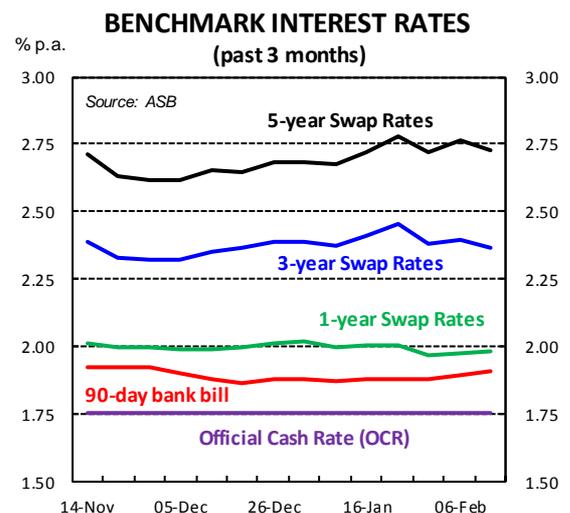
We agree that OCR hikes are long way off. On this basis, we have pushed out our view for the timing of the next OCR hike to the second half of 2019, from February 2019 previously.

Interest Rate Outlook

In terms of interest rates, the RBNZ's stance should help keep NZ short-term interest rates around current low levels.

In contrast, long-term interest rates may drift higher in line with rising global rates. In particular, we expect two US Federal Reserve interest rate hikes this year.

All up, we expect interest rates to continue to remain low by historical standards over the next six months.



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