Rural Loan Report

21 February 2019

Key Points

- Benchmark interest rates touched record lows earlier this month.
- The Reserve Bank remains on hold, but has indicated that the Official Cash Rate needs to stay lower for longer.
- We expect benchmark interest rates to stay low this year, but we flag the risk that rates rise in the longer term.

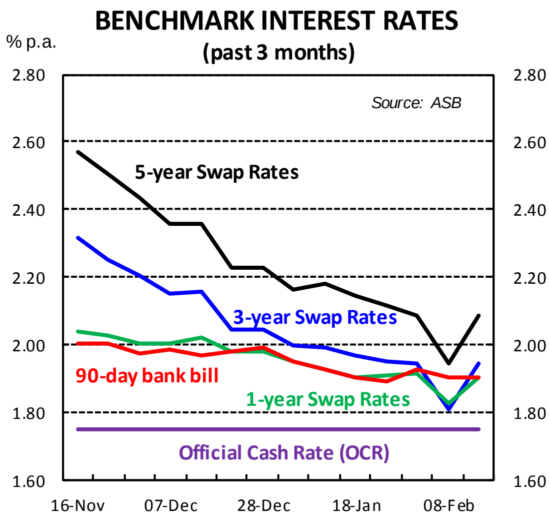
Benchmark Interest Rates (%)*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	1.75	1.75	1.75	2.48	→
90-day bank bill	1.90	1.88	1.86	2.67	→
1-year Swap Rates	1.90	1.90	2.01	2.81	→
3-year Swap Rates	1.97	1.97	2.37	3.32	→
5-year Swap Rates	2.12	2.15	2.73	3.67	→

*Rates current as at 19 February 2019; **Outlook is over the next 6 months

Benchmark interest rates touched record lows this month

All benchmark interest rates have fallen so far over 2019. At one stage, the 5-year swap rate had fallen 26 basis points since the end of 2018, while the 2-year swap rate was down around 18 basis points.

Moreover, several rates set new record lows this month. Indeed on 8 February, 1-year through 7-year swap rates all set record lows.



Reserve Bank still patient

Meanwhile, **the Reserve Bank (RBNZ) kept the Official Cash Rate (OCR) unchanged** at 1.75% on 13 February as expected. Importantly, the RBNZ expects to keep the OCR on hold through 2019 and 2020.

We largely agree with the RBNZ. All up, this means that **NZ benchmark interest rates** are likely to stay low over 2019.

Flagging the risks

In the short-term, the risks to NZ's benchmark interest rates are evenly balanced. The RBNZ's outlook for the OCR sums it up nicely: "the next OCR move could be up or down."

Longer-term, the risk to interest rates, including customer rates, are skewed upwards. One factor that could contribute to rising interest rates is the RBNZ's proposal to increase in Banks' capital requirements. This proposal as it stands could increase banks' funding costs, which may in turn be reflected in the interest rates that farmers face. That said, the changes are still in the consultation stage, so the final capital requirements may change from the currently proposed changes. In other words, watch this space!

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Please refer to the important disclosures at the end of this document.

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