

The Rural Loan Report

July 2015



Benchmark Interest Rates*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	3.25	3.50	3.25	4.42	↘
90-day bank bill	3.18	3.46	3.63	4.68	↘
1-year Swap Rates	3.00	3.36	3.99	4.80	↘
3-year Swap Rates	3.07	3.52	4.48	5.10	↘
5-year Swap Rates	3.36	3.76	4.72	5.31	→

* Rates current as at 6 July 2015

**Outlook is over the next 6 months

Key points

- We expect the Reserve Bank to cut the OCR three times this year.
- In this event, we expect floating and short-term rates to fall further.
- At this stage, we also expect medium and some longer-term rates to fall as well, but risks are that they don't necessarily decline.

ASB expects the RBNZ to cut the OCR by 75bps this year

We now expect the RBNZ to deliver another 75bp of OCR cuts before the end of the year, to a low of 2.5%. We see this as comprising three 25bp cuts in July, September and October, respectively.

The more pessimistic dairy sector outlook is a key driver of our change in OCR view. But, business confidence is also now falling more broadly. For example, recent business surveys show other sectors such as manufacturing are beginning to struggle, and even construction sector confidence is coming off the boil. All up, this weaker confidence is likely to translate into weaker economic growth over the remainder of 2015.

Markets largely agree. At this juncture, markets have priced in 50bp worth of OCR cuts by the end of the year and a 30% probability of yet another 25bp cut by March 2016.

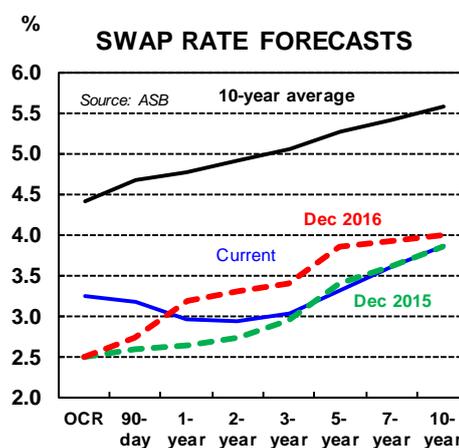
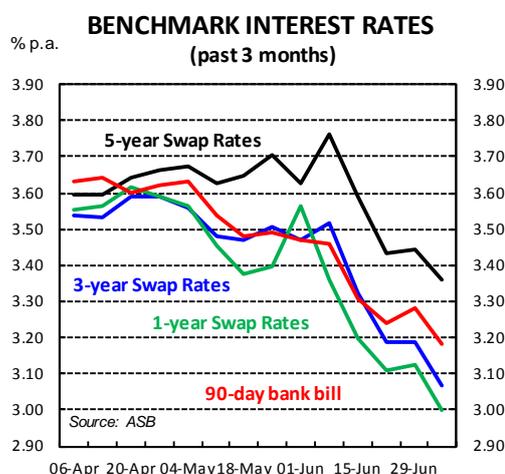
Also, global economic risks, particularly around Chinese and Greek concerns, point to the possibility that the RBNZ may need to do more in the event that global economic growth takes a material turn for the worse.

Interest Rates Outlook

If the RBNZ cuts the OCR, we expect the floating rates and very short-term fixed rates to fall over the next six months.

Longer-term rates are also likely to fall over the year, but we see some risk that they don't necessarily decline. Medium- and long-term rates are more dependent on offshore events, particularly as they relate to US interest rates. At this stage, we expect the US Federal Reserve to begin lifting its rates late this year. However, should it move earlier than that, upward pressure will come on global and NZ longer-term rates sooner than we currently have factored in.

All things considered and by historical standards, we are in for a lengthy period of low interest rates.



ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Economist	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5660	
Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778	
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661	



<https://reports.asb.co.nz/index.html>

[@ASBMarkets](#)

ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland

Important Disclosures

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.