

Rural Loan Report

28 March 2018

Key Points

- The Reserve Bank has a new Governor, Adrian Orr.
- Despite the change in Governor, we expect the Reserve Bank to keep the OCR unchanged until August 2019.
- However there is change afoot offshore, and as a result, long-term interest rates may drift higher over the year.

Benchmark Interest Rates (%)*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	1.75	1.75	1.75	2.94	→
90-day bank bill	1.96	1.92	1.98	3.14	→
1-year Swap Rates	2.08	2.02	2.08	3.22	→
3-year Swap Rates	2.39	2.37	2.56	3.69	↗
5-year Swap Rates	2.67	2.72	2.93	4.02	↗

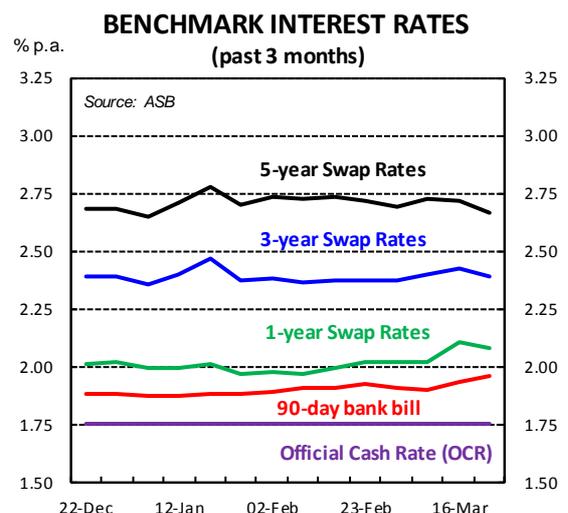
*Rates current as at 23 March 2018; **Outlook is over the next 6 months

A new era starts at the Reserve Bank, but interest rates still much the same

On 27 March, **Adrian Orr** officially started as the new **Governor of the Reserve Bank (RBNZ)**. He has also inherited a new agreement with the Government, with an employment focus added alongside the central objective of keeping prices stable.

However, **as much as the personnel has changed, the RBNZ's key messages around interest rates remain the same.** Indeed, the key line from the 22 March Official Cash Review (OCR) was exactly the same as at the February announcement. Specifically, the RBNZ announced that the OCR was unchanged at 1.75% and that it was likely remain so "for a considerable period."

In other words, OCR hikes remain a long way off. For our part, we don't expect RBNZ to begin hiking the OCR until August 2019.



Interest Rate Outlook

In terms of interest rates, **the RBNZ's stance should help keep NZ short-term interest rates near current low levels for most of 2018.**

In contrast, **long-term interest rates may drift higher in line with rising global rates.** In fact, we expect two more US Federal Reserve interest rate hikes this year on top of the hike earlier this month.

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

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