Rural Loan Report

17 May 2018

Key Points

- The new Reserve Bank Governor has clearly stated that the next move in the OCR could be “up or down”.
- Despite this message, credit market pressures have lifted short-term interest rates over recent months.
- All up, the outlook is for interest rates to remain low, although longer-term rates are likely to creep higher.

Benchmark Interest Rates (%)*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	1.75	1.75	1.75	2.92	→
90-day bank bill	2.05	2.03	1.98	3.11	→
1-year Swap Rates	2.08	2.18	2.03	3.19	→
3-year Swap Rates	2.38	2.46	2.45	3.67	↗
5-year Swap Rates	2.68	2.74	2.81	4.00	↗

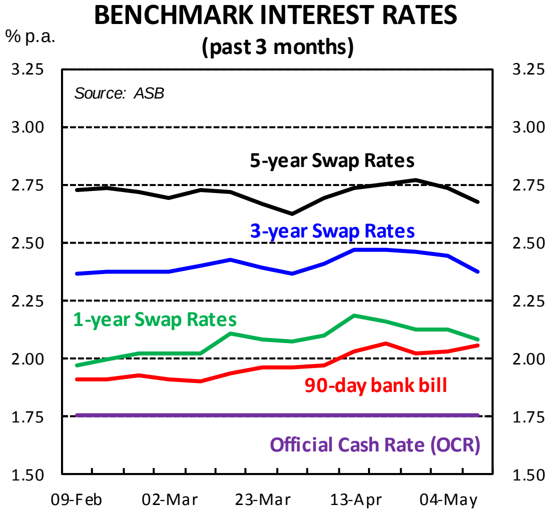
*Rates current as at 15 May 2018; **Outlook is over the next 6 months

Clear message from new Reserve Bank Governor: OCR could go “up or down”

This month, the new Reserve Bank (RBNZ) Governor, Adrian Orr, ushered in a new era by clearly stating that the next Official Cash Rate (OCR) move could be “up or down”. For now though, the Governor expects to keep the OCR at its current level of 1.75% “for a considerable period of time.”

By and large, we agree with the RBNZ. For our part, we don’t expect the RBNZ to begin hiking the OCR until August 2019.

However, credit market pressures have acted against the RBNZ recently. These pressures have lifted 90-day bank bill rates, for example, by around 20 basis points since the start of the year. That said, credit market pressures are showing signs of easing and we expect some of this rise to unwind over coming months.



Interest Rate Outlook

The RBNZ’s stance and easing credit market pressures should help keep NZ short-term interest rates low for most of 2018.

By 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 back in March.

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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