

Rural Loan Report

17 May 2019

Key Points

- Benchmark interest rates have touched record lows.
- The Reserve Bank cut the Official Cash Rate this month, and may cut once more this year.
- While benchmark interest rates could track lower this year, 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	1.50	1.75	1.75	2.45	↓
90-day bank bill	1.70	1.82	2.05	2.65	↘
1-year Swap Rates	1.63	1.69	2.08	2.78	↘
3-year Swap Rates	1.64	1.68	2.38	3.26	↘
5-year Swap Rates	1.75	1.83	2.68	3.61	↘

*Rates current as at 10 May 2019; **Outlook is over the next 6 months

Benchmark interest rates touched new record lows

Benchmark interest rates have touched record lows over recent months. Indeed, as at the time of writing, all benchmark rates have set record lows this month. **Unsurprisingly, benchmark rates have posted significant falls so far this year.** Since the turn of the year, 1-year through 7-year swap rates have fallen by between 30 and 60 basis points.

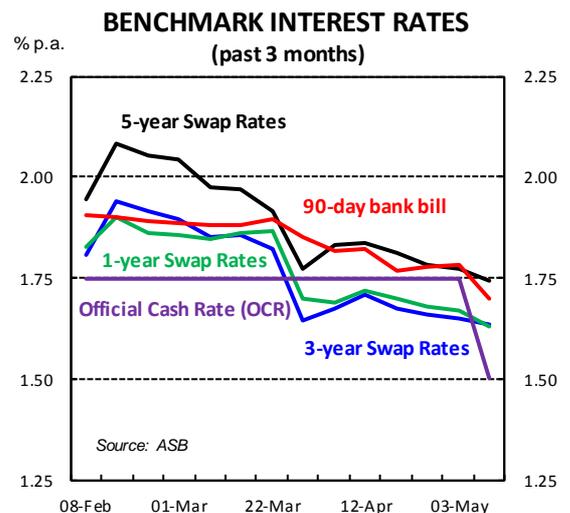
Reserve Bank cuts the OCR

Meanwhile, the Reserve Bank (RBNZ) cut the Official Cash Rate (OCR) to 1.50% on 8 May, as expected. Moreover, the RBNZ has signalled that it may cut the the OCR once more this year. We largely agree with the RBNZ's OCR outlook: **we expect one more OCR cut this August.**

Flagging the risks

In the short-term, NZ's benchmark interest rates could track a touch lower. In fact, if the RBNZ cuts the OCR as we expect, then rates are likely to fall further.

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 proposed increase to Banks' capital requirements. This proposal could increase banks' funding costs, which may in turn be reflected in the interest rates that farmers face. That said, the final decision on capital requirements has yet to be made and thus may differ from current proposal. In other words, watch this space!



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