

# Rural Loan Report

14 November 2017

## Key Points

- Shorter-term benchmark interest rates have been steady over recent months, while longer-term rates have lifted a touch.
- All rates remain low compared to their 10-year averages.
- From here, we expect short-term rates to stay around current low levels, however longer-term interest rates are likely to drift higher.

Benchmark Interest Rates (%)*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	1.75	1.75	1.75	3.18	→
90-day bank bill	1.94	1.93	2.08	3.39	→
1-year Swap Rates	2.02	2.02	2.13	3.47	↗
3-year Swap Rates	2.39	2.39	2.44	3.91	↗
5-year Swap Rates	2.71	2.72	2.74	4.22	↗

\*Rates current as at 10 November 2017; \*\*Outlook is over the next 6 months

## The Reserve Bank is on hold

On 9 November, the Reserve Bank (RBNZ) kept the Official Cash Rate (OCR) at 1.75% as widely expected. In addition, the RBNZ kept its neutral bias. In other words, the RBNZ expects that there is roughly an equal chance of the next interest rate move being up or down.

Importantly, the November announcement was the first under a new government, with the RBNZ incorporating some new government policies into its projections. However, the impact of extra government spending was largely offset by weak recent economic activity, so that the interest rate outlook was mostly unchanged.

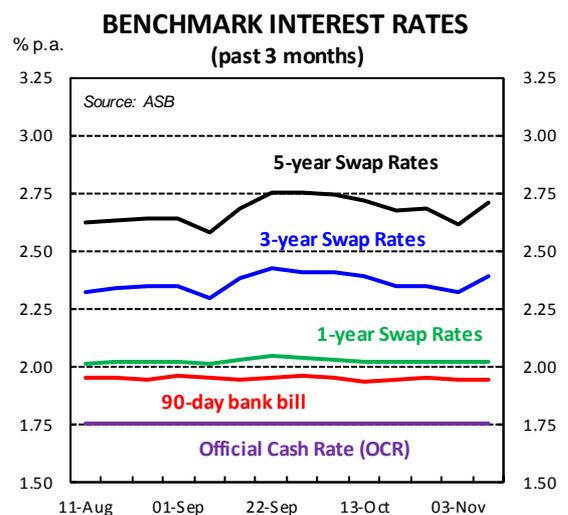
With this in mind, we continue to expect the RBNZ to remain on hold through next year before starting to lift the OCR in early 2019.

## Interest Rate Outlook

In terms of interest rates, the RBNZ's stance should help keep NZ short-term interest rates around current low levels.

However, we expect long-term interest rates to drift higher in line with rising global rates. In particular, we now expect three US Federal Reserve interest rate hikes by the end of 2018, with risks that there may be a fourth.

That said, we expect interest rates to continue to remain low by historical standards over the first half of 2018.



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