

# Rural Loan Report

07 October 2019

## Key Points

- The Reserve Bank cut the Official Cash Rate to a record low in August.
- We expect two more 25bp cuts in November and February 2020, taking the OCR to a record low 0.50%.
- With that in mind, interest rates are likely to remain lower for longer.

Benchmark Interest Rates (%)*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	1.00	1.00	1.75	2.41	↓
90-day bank bill	1.07	1.17	1.90	2.60	↓
1-year Swap Rates	0.90	1.00	1.95	2.72	↓
2-year Swap Rates	0.83	0.92	2.01	2.95	↓
5-year Swap Rates	0.85	0.94	2.35	3.47	→

\*Rates current as at 3 October 2019; \*\*Outlook is over the next 6 months

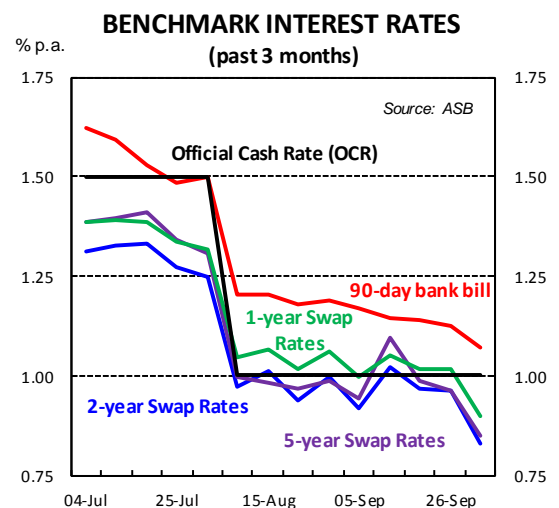
## Reserve Bank cuts the OCR to a record low of 1%

In August, the Reserve Bank (RBNZ) cut the Official Cash Rate (OCR) by 50 basis points to a record low of 1.00%. Moreover, the 50 basis point cut surprised financial markets.

## We expect two more OCR cuts

We think that the RBNZ has not finished easing. We anticipate a 25bp OCR cut in November and a second 25bp cut in February 2020. There also remains some downside risk to our interest rate view. The OCR floor could be lower than 0.5%.

The lower OCR and softening NZ economic outlook have also led domestic interest rates lower. Benchmark interest rates set fresh record lows over September. Indeed, swap rates (1-year through 5-year) have fallen by over 100 basis points since the start of 2019.



## Farmers can expect rates to remain lower for longer

Over the remainder of 2019 and into 2020, NZ's benchmark interest rates, particularly for short and medium terms, could track a touch lower. These moves could be reflected in customer rates, particularly for shorter-terms.

Looking to late-2020 and beyond, the risks to borrowing rates are more balanced. Over this horizon, the impact of higher bank capital requirements (click [here](#) for our full report) will also come into play. **These changes are likely to lift banks' funding costs and thus borrowing rates**, plus the availability of credit could tighten. This picture will become clearer once the RBNZ's makes its final decision on capital requirements in December. Watch this space!

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