

Rural Loan Report

11 September 2017

Key Points

- Benchmark interest rates have fallen over recent months and remain low compared to average.
- From here, we expect short-term rates to stay around current low levels.
- However, longer-term interest rates may still drift higher.

Benchmark Interest Rates (%)*	Current	Month ago	Year ago	10-year Average	Outlook**
Official Cash Rate	1.75	1.75	2.00	3.30	→
90-day bank bill	1.96	1.94	2.23	3.52	→
1-year Swap Rates	2.02	2.02	2.06	3.59	↗
3-year Swap Rates	2.35	2.35	2.02	4.02	↗
5-year Swap Rates	2.64	2.67	2.10	4.32	↗

*Rates current as at 8 September 2017; **Outlook is over the next 6 months

The Reserve Bank is on hold

On 10 August, 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.

For our part, we still expect the RBNZ to start lifting the OCR in the first half of 2019. In particular, we expect stronger economic growth and inflation over 2018 and 2019 than the RBNZ forecasts. But 2019 is still a “considerable” time away.

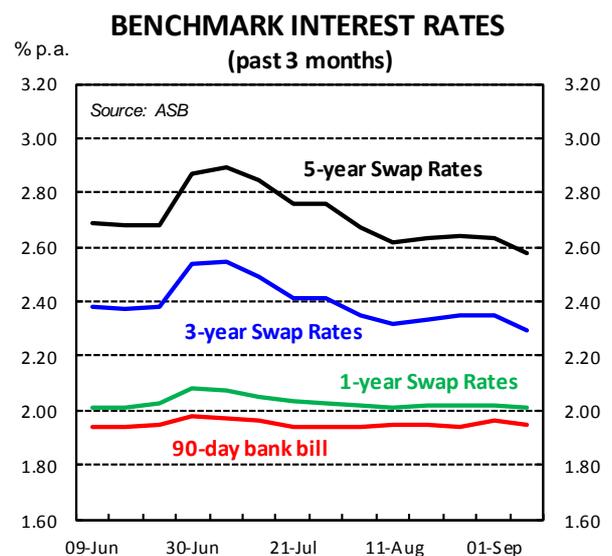
Interest Rate Outlook

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

However, longer-term rates may still drift higher, particularly if US benchmark interest rates continue their gradual lift.

Notably though, the consensus on the timing of US interest rate hikes has been for later hikes. If this trend continues, long-term NZ rates may stay low for longer.

All up, we expect that we are in for a lengthy period of low interest rates by historical standards.



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