If I Were A Borrower What Would I Do? Tony Alexander

Finally, something new to say. Last week BNZ cut fixed home lending rates across the board. The one year rate has declined to 4.19% from 4.29%, two year to 4.35% from 4.49%, three year to 4.49% from 4.85%, five year to 5.59% from 6.09%, and seven year to 5.95% from 6.15%.

If I were borrowing again at the moment I would now show a preference for fixing three years at 4.49%. The premium for an extra year's certainty beyond the two year rate is only 0.14% per annum. The four year rate is a full percentage point higher at 5.49% and I would not be prepared to pay that level of premium for extra rate certainty.

Why have the rates dropped when US monetary policy is still expected to be tightened, especially in light of consumer confidence surging and higher inflation coming from planned 10% tariffs on US$200bn worth of imports from China and a tightening labour market? The US ten year government bond yield has risen above 3.05% from 2.85% two weeks ago.

Here in New Zealand, while we pooh pooh the meaningfulness of current business sentiment readings, the fact remains that both employment and investment intention have shifted into negative territory, net migration inflows are slowly easing (though how much will soon be just guesswork because of data changes), construction activity seems to have peaked, consumer confidence is below average, and the Reserve Bank seems to be looking for an excuse to cut the official cash rate from the current 1.75%. The financial markets have increased pricing in of a rate cut in the coming year.

We still think a rate cut is not highly likely, especially considering this morning's stronger than expected 1.0% GDP growth revelation for the June quarter. The Reserve Bank had expected just 0.5%. But the change in pricing has caused some drops in wholesale interest rates. The three year swap rate for instance has declined to around 2.15% from 2.3% six weeks ago, and 2.5% four months ago.