

Input to your Strategy for Adapting to Challenges

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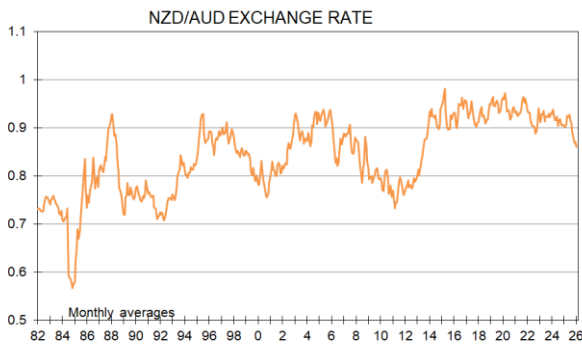
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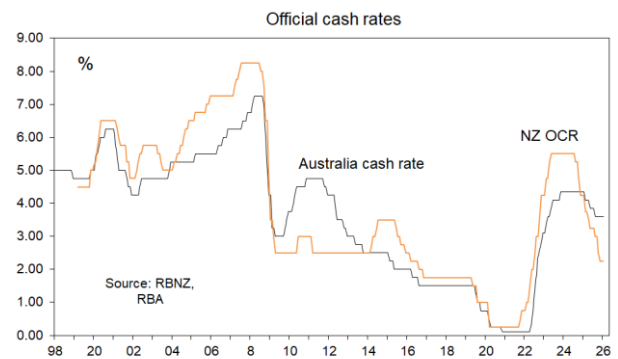
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NZ dollar vs the Aussie dollar

The rate of exchange between the Kiwi and Aussie dollars has fallen recently to a low near 85.7 cents from 90 cents a year ago and a recent peak of 96 cents late in 2021. As the following graph shows the rate has spent a very long period of time – some 12 years – trading broadly in a range from 90 cents to about 96 cents.




The latest rate is the lowest since the middle of 2013. Back then we saw strong prices for NZ exports plus the reappearance of a situation where the NZ cash rate was appreciably above the Aussie rate. This is shown by the orange line in the following graph sitting above the thin black line.




Now look to the extreme right of this graph and you will see the orange NZ cash rate line is well below the Aussie line. Our cash rate sits at 2.25% and theirs for the moment is at 3.6%.

The move down of the NZD against the AUD substantially reflects the relatively low level of our cash rate versus theirs and expectations that Aussie monetary policy will be tightened very soon.


The chances are good that whatever happens with interest rates the NZ cash rate will sit below Australia's through 2026 and 2027. That implies




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sustained weakness in the NZD against the AUD until maybe 2028 when our central bank will be moving from its loosening too much for too long phase into tightening too much for too long.

I was asked during the week if weakness in the NZD against the AUD might mean a movement of Australian investors into the NZ housing market. My response was that any rise in investment would be very muted for a number of reasons.

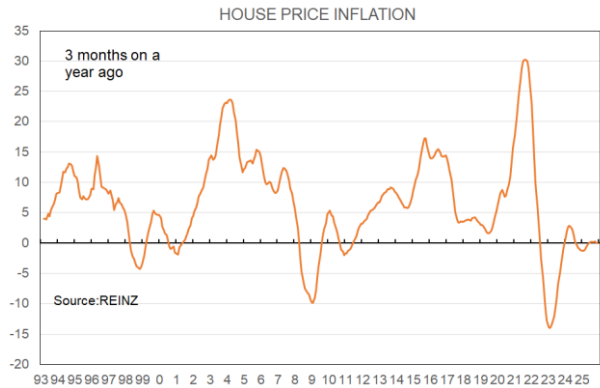
Interest rates are expected to rise in Australia and that will mean investors will be focussing on their domestic debt servicing cash flow requirements rather than stretching their debt levels further with an adventure over here.

There is common discussion in Australia about the AUD rising generally and expectations of gains will mean investors worry about capital losses if they buy other currencies too early.

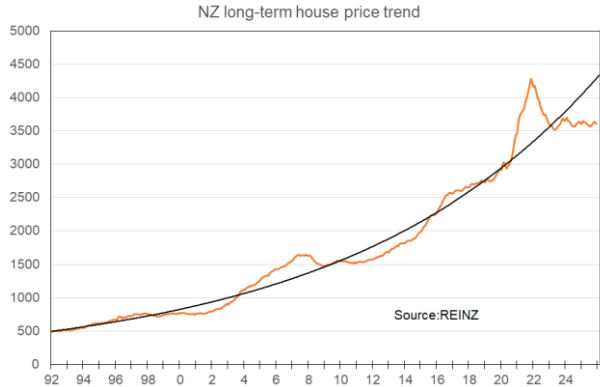
In addition, in the past we have seen decent bouts of Aussie buying here, but that has tended to happen during times when our housing market has good upward price momentum. That is not the case now. To whit...

REINZ data show flatness

Data released this week by REINZ show that on average house prices around New Zealand fell by 0.7% in December. This followed small rises of 0.1% in November and 0.6% in October and means that for the December quarter prices were ahead 1.0% from the September quarter and exactly the same as a year ago.

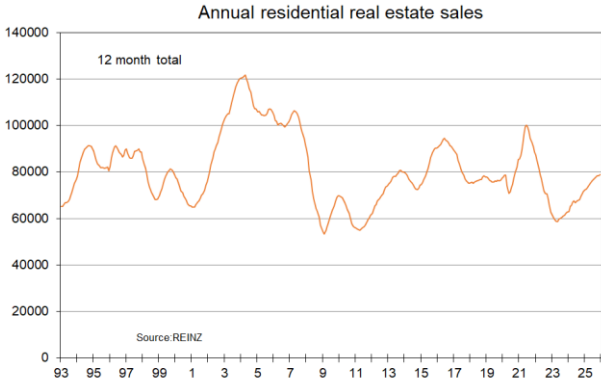


House prices on average in New Zealand have been flat since about early 2021.

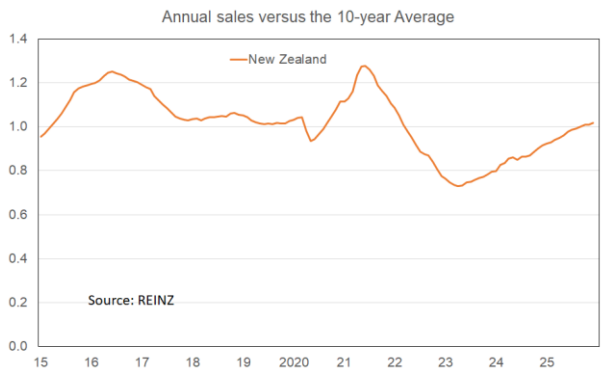


With regard to turnover we see that in rough seasonally adjusted terms sales over the December quarter were 5% ahead of the September quarter. They were also 5% up from a year ago.

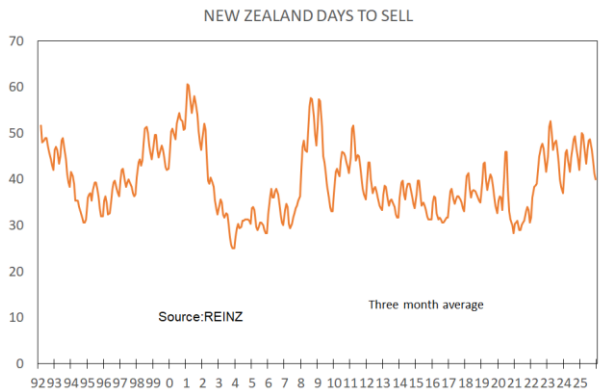
The trend in sales is upward as shown in the following graph.



Sales have reached almost exactly their ten year average level as shown here.



Finally, on average in the December quarter it took 40 days to sell a dwelling. This was two days faster than a year ago but one day slower than average for the past decade.



Overall, the NZ residential real estate market is showing some underlying improvement. But prices are only slowly creeping up and the common view of gains this year coming in around 5% seems about right.

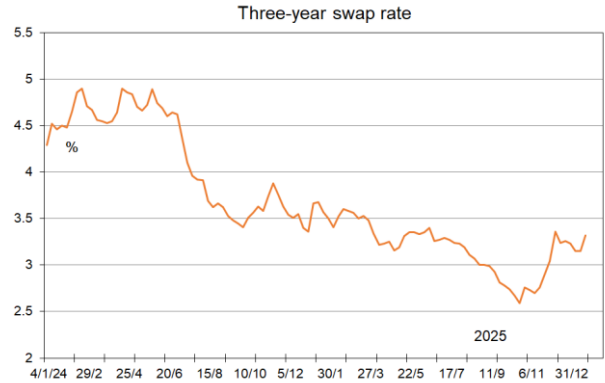


If I were a borrower, what would I do?

Wholesale interest rates in New Zealand have risen this week in association with some upward movement in medium to long term rates offshore. The calling of a snap election in Japan caused yields there to rise while concerns about activity around Greenland, tariffs, and an attack on Federal Reserve independence have caused international selling of US assets and higher yields there alongside lower equity prices.

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Locally the three year swap rate at which NZ banks borrow fixed three years to lend to you and I fixed three years rose to around 3.32% from 3.15%. This puts the rate back almost to where it was in the second week of December.



The trend in rates in NZ is now upward with a risk of some rapid medium to long-term rate rises through the year as inflation risks escalate. But it is completely impossible to pick the speed with which rates will rise.

If I were borrowing at the moment, I'd probably fix three years. Fixing five is no longer possible at the good rate of 4.99% and at about 5.30% the leap from fixing one year near 4.5% is too large to seriously consider for all but the highly risk averse.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

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