Mortgage Commentary
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As noted last week, the heat has currently been taken out of upward pressure on interest rates by a variety of factors.

Overseas there are as always a number of factors at play and financial markets, especially sharemarkets, continue to fluctuate reasonably wildly at times according to the tenor of the news of the day. The problems in Greece, whilst potentially saved by the other EEC countries, has been seen as a possible forerunner of what other economies may face and has given world financial markets the jitters. Most countries have to raise a huge amount of money (over the next couple of years especially) to fund their stimulus packages. As it stands, the economic recoveries in those other European countries are pretty fragile as it is in the USA.

One of the new economic powerhouses, China, is now making moves to wind back inflationary pressures by reducing the money available in their monetary system and as many countries are relying on the demand for their products from China, if that demand reduces then their recoveries will be more drawn out.

Australia continues to be the ‘lucky country’ although it is exposed to a drop off in demand for its minerals from China and you’ll recall that the RBA (Reserve Bank of Australia) recently chose not to review its equivalent of our OCR (Official Cash Rate), rather to sit and wait to see the result of the three .25% increases that they had already put in place.

As far as NZ is concerned, all the above, including weaker economic data (higher unemployment figures, weaker real estate market and lower core retail figures) indicate that the recovery here is certainly restrained to say the least and could be far more drawn out than hoped. One economist likened the shape of the recovery to that of a bath with ripples/waves – that is sharply falling at the start, up and down for quite some time in the middle and then probably reasonably sharply upward at the end.

The effect on interest rates has been to take the pressure off both the Reserve Bank to increase the OCR and also off the wholesale markets both here and overseas. To perhaps confirm this, we have seen one of the major banks that was sitting above the other banks, reduce its fixed rates for 1, 3, 4 and 5 years back down to similar levels to that of the other banks.

Therefore, given that rate increases here appear to have been pushed out several months, it would seem at present that a reasonable interest rate strategy is to go onto a variable rate, even if you still intend eventually fixing to lock into some certainty. Isn’t it amazing how things can change so quickly given some weak economic news!

If you really want the comfort of a fixed rate right now, I still feel that the 2 year rate is the best option as it should see off a lot of the upward leg of the interest rate cycle, whilst still providing a good rate relative to the 5 year average.

For now though, the variable rate looks like the ‘play’ given the current economic outlook.

Author: Brian Berry – Rothbury Financial Services
(Brian writes a Weekly Mortgage Commentary for the Bay of Plenty Times)