

NEWS

QE could push mortgage rates even lower: ASB

Further quantitative easing from the Reserve Bank would push mortgage rates even lower, according to economists at ASB.

- Wednesday, June 17th 2020

The ASB team, led by chief economist Nick Tuffley, say QE, and "a flood of deposits", have helped to lower retail interest rates more than wholesale interest rates.

According to Bloomberg data, two-year mortgage rates have fallen by 70 basis points since QE was announced, with wholesale rates falling by just over 40 basis points.

The Government's LSAP QE programme, at \$60 billion, "has been sufficiently large and credible so as to keep interest rates low across the yield curve", ASB said.

According to the bank, "further falls in retail interest rates are possible".

"RBNZ QE is still in its infancy, and further increase in liquidity generated by RBNZ QE may act to lower retail deposit interest rates," the economists said. "Mortgage interest could well follow. We acknowledge the prospect of lower retail interest rates won't be greeted with much enthusiasm by savers, but it could prove to be a saving grace for borrowers."

QE could push rates down even if the central bank opts to keep the official cash rate at its current level. Yet the behaviour of deposit holders could counterbalance the downward trajectory.

"Much will depend on how flush the system is for funding," the ASB economists said. "The flood of deposit funding could slow to a trickle if households and corporates run down their deposit balances. Borrowing could also pick up. This could act to slow the decline in retail interest rates."