Borrow

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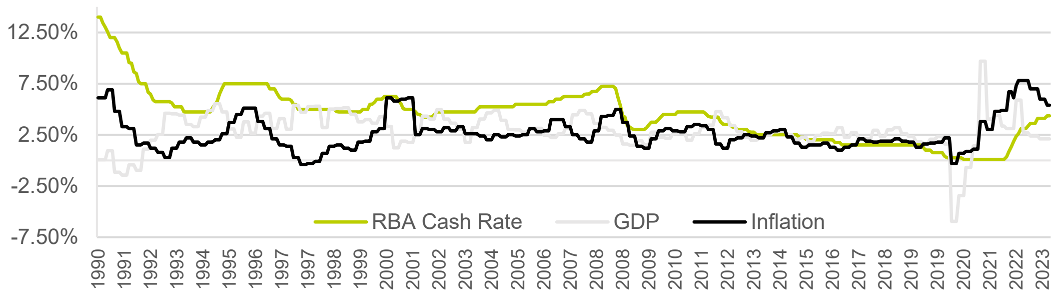
Interest rates on hold. Latest data doesn't support a rate cut (as hoped), instead, it could suggest a rate hike if inflation doesn't cool further. The RBA maintained interest rates at 4.35% in the first meeting of 2024. With inflation still tracking higher than the target, the RBA is holding firm with its wait and see approach of 2023.

Cash Rates, Inflation, Wages and Real Estate Asset Prices

- On 6 February 2024, the RBA left the cash target rate unchanged at 4.35%, with its exchange settlement balances also unchanged at 4.25%. Inflation remains persistently higher than the target range. While unemployment remains at historically low levels, with Australia's global trading partners' GDP growth remaining healthy, it would appear that there is no signal that could seriously give the RBA any reason to reduce interest rates; in fact, the data suggests the opposite is more likely.
- In deciding to maintain rates unchanged this month, the RBA commented, "*While recent data indicate that inflation is easing, it remains high. The Board expects that it will be some time yet before inflation is sustainably in the target range. The path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe will depend upon the data and the evolving assessment of risks, and a further increase in interest rates cannot be ruled out.".*
- The most recent RBA chart pack released on 12 February 2024 provides some interesting insights that appear to be overlooked by the doom and gloom of the newspaper editorials. The chart pack tells a fairly positive global story. The GDP of our major trading partners is positive and in line with the past 10-year average; India's and China's GDPs appear particularly strong (although somewhat lower than historical averages), and inflation for our trading partners is returning to normal. Labour markets remain tight globally with positive wage growth; however, consumer sentiment is at its lowest in 20 years.
- Aside from another global health emergency, we continue to think that any rate cuts are overly optimistic, and any hope of it should be dismissed as a distraction.

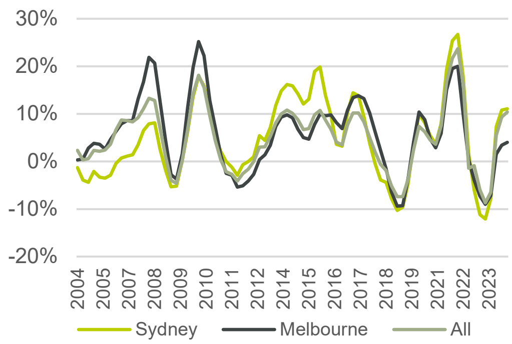
Exhibit 1: GDP, Inflation and RBA Cash Rate



Source: ABS, RBA

Exhibit 2: Wage Growth and Unemployment

Exhibit 3: Annual House Price Movements



Source: ABS, RBA, CoreLogic

Monetary Policy and Home Servicing Ratios

- The RBA has held their reduced asset position constant for the past 6 months. We expect to see more reductions as the central and regional banks repay their COVID-19 term funding facilities, which are due for repayment in March 2024. This should be considered a risk to the lender's ability to maintain funding growth should this cause short-term liquidity issues.

- The longer-term government bond rates have traded lower in the 3.8% to 4.5% range, reflecting the current outlook for lower rates of around 3.9% over the next 5 years.

- As expected, the household assets to income ratio declined slightly over the past few quarters due to real estate asset price declines and equity erosion through the cost of debt. Household debt-to-income ratios remained stable.

Exhibit 4: Reserve Bank of Australia Assets
$billion

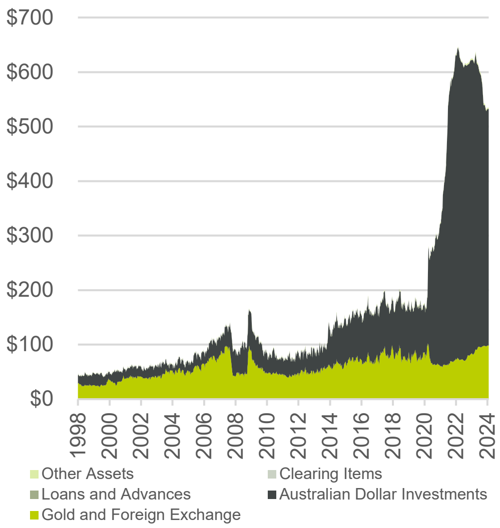
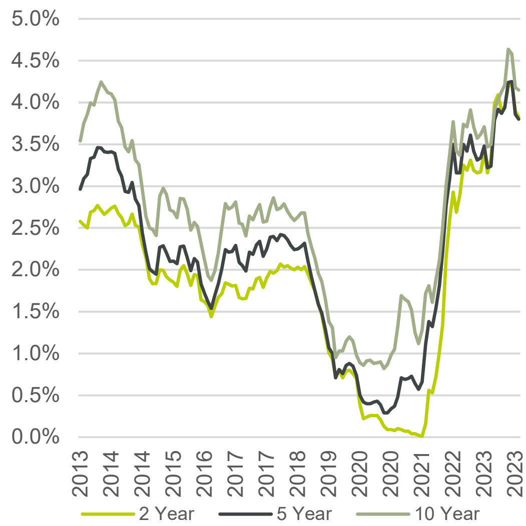


Exhibit 5: Australian Government Bond Yield



Source: ABS, RBA

Exhibit 6: Household Debt Servicing Ratios

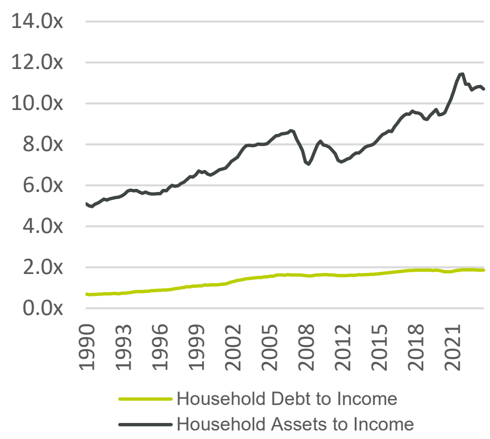
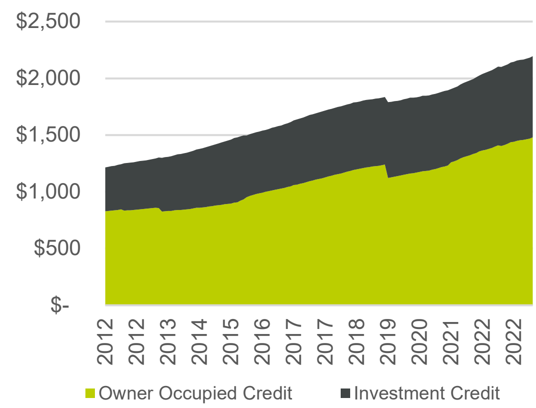


Exhibit 7: Housing Loan Commitments
$billion



Source: ABS, RBA

Historical House and Business Rates

- Residential and business interest rates have flattened over the past quarter. There is a meaningful incentive to refinance to new lenders with the most competitive variable rates, typically around 0.50% lower than existing outstanding mortgages.

Exhibit 8: Owner-Occupier Home Rates
Outstanding and new loans in % per annum

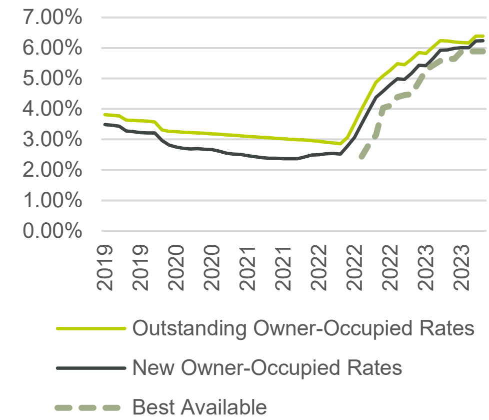
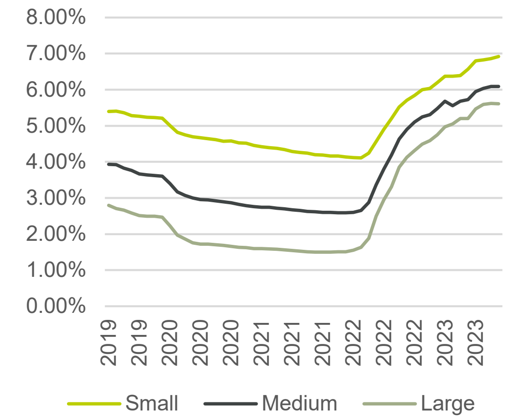


Exhibit 9: Outstanding Business Rates
Small, medium and large businesses in % per annum



Source: ABS, RBA

Access to Funding

- Based on the latest analyst polls, there is less than a 4% chance of a rate decline and a 96% chance of no change at the next RBA meeting. We expect no change at the next few meetings unless there is a material change in inflation or other economic conditions.

Exhibit 10: Indicative Credit Policy Measures

	12 m Ago	Current	12 m Forecast	Consumer Effect
Loan to Value Ratio (without LMI)	80.00%	80.00%	80.00%	**Neutral** – Valuations have remained relatively stable over the past 12 months in most Australian regions.
Debt to Income Ratio	<6.0x	<6.0x	<6.0x	**Neutral** – Lending standards (aside from interest rates) have also been relatively stable over the last 12 months. Consumers may have perceived a difference only because they don't regularly engage the debt markets, and because of this, may have been shocked by the material reduction in lending capacity compared to the pre-COVID era.
Bank Servicing Buffer + Reference Rate	7.46%	7.89%	7.33%	**Neutral** – Over the past 2 months, we have seen a reduction in the buffer rates from 3% to 1% for refinancing activity. New purchases remain higher, close to 9.3%.
Household Expense Measure (2 Adults, 2 Children, Modest Lifestyle)	$6,045	$6,500	$6,702	**Negative** – Household expenses continue to increase due to lingering inflation. It appears that this will worsen over time, given the soft-landing approach that the RBA is taking. We are starting to see lenders releasing new assessments of household expenses, which will negatively affect borrowing.
Indicative Borrowing Capacity - For $500,000 Income Household	$2,637,602	$2,468,513	$2,576,814	**Neutral** – Aside from living expenses, we expect the next 6 months to be relatively stable, consistent with the past 6 months. We don't expect either rate increases or decreases in the short term.
		-6.4%	-2.3%	

Source: Cashel Family Office, Refinitive

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Borrower Loan Rates

- Over the summer period, there have been no major changes in the rates offered by lenders; this is notwithstanding the lowering rate decreases by many analysts. Either the lenders don't expect the RBA rate cuts, or they are seeking to hold onto as much margin as possible when and if there is a decrease in interest rates. In any case, there appears to be an opportunity for borrowers to save by considering the 3-year fixed rate.

Exhibit 11: Owner-Occupied Rates

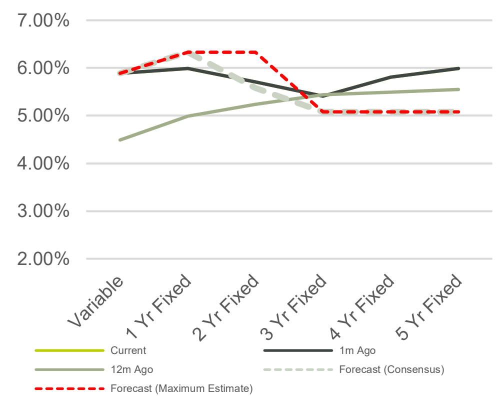
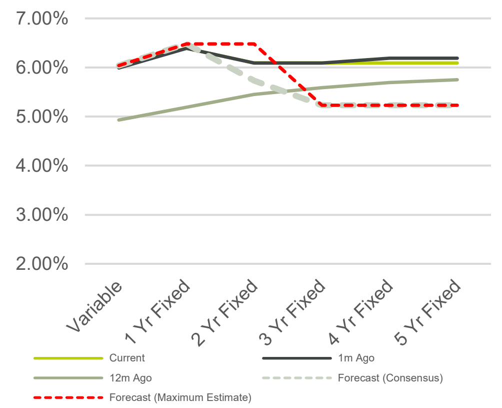


Exhibit 12: Investment Rates



Source: Cashel Family Office, Refinitive, Connective

Exhibit 13: Home Loan – Indicative Available Interest Rate Hedging

	Current	2024	2025	2026	2027	2028
Variable Rates	5.89%	6.33%	5.58%	5.08%	5.08%	5.08%
1 Year Fixed	5.99%	5.99%	5.58%	5.08%	5.08%	5.08%
2 Year Fixed	5.71%	5.71%	5.71%	5.08%	5.08%	5.08%
3 Year Fixed	5.41%	5.41%	5.41%	5.41%	5.08%	5.08%
4 Year Fixed	5.81%	5.81%	5.81%	5.81%	5.81%	5.08%
5 Year Fixed	5.99%	5.99%	5.99%	5.99%	5.99%	5.99%

Source: Cashel Family Office, Connective

Exhibit 14: Investment Home Loan – Indicative Available Interest Rate Hedging

	Current	2024	2025	2026	2027	2028
Variable Rates	5.99%	6.43%	5.68%	5.18%	5.18%	5.18%
1 Year Fixed	6.39%	6.39%	5.68%	5.18%	5.18%	5.18%
2 Year Fixed	6.09%	6.09%	6.09%	5.18%	5.18%	5.18%
3 Year Fixed	6.09%	6.09%	6.09%	6.09%	5.18%	5.18%
4 Year Fixed	6.19%	6.19%	6.19%	6.19%	6.19%	5.18%
5 Year Fixed	6.19%	6.19%	6.19%	6.19%	6.19%	6.19%

Source: Cashel Family Office, Connective

Exhibit 15: Personal, Asset, Commercial and Business Lending Indicative Interest Rates

	Indicative Rates
Home Mortgage (Full Doc)	5.89%
Home Mortgage (Low Doc)	7.12%
Investment Mortgage (Full Doc)	6.04%
Investment Mortgage (Low Doc)	7.12%
Commercial Loan	6.19%
Investment Mortgage (Private Doc)	9.25%
Margin Loan	9.50%

	Indicative Rates
SMSF Loan	7.17%
Chattel Loan	6.57%
Personal Loan	6.57%
Credit Card	19.82%
HECS	7.10%
Outstanding Taxation	11.38%

Source: Cashel Family Office, Connective, NAB, ATO and comparethemarket.com.

Implications for Interest Rate Outlook

- Consensus forecasts expect us to be at peak rates for this cycle and for rates to decrease in the short term. We are not convinced about this and expect that our current interest rates will remain at this level for the medium term in what we consider to be the long-term average.

Exhibit 16: Impact of Interest Rate Forecasts and Fixed Rates on $1 Million Borrowing

	Feb 2024	2024	2025	2026	2027	2028
Current Available Rates (Home)						
Variable Rates	5.89%					
Fixed Rate		5.99%	5.71%	5.41%	5.81%	5.99%
Current Available Rates (Investment)						
Variable Rates	6.04%					
Fixed Rate		6.39%	6.09%	6.09%	6.09%	6.09%
Cashel Forecast						
Inflation	4.10%	3.10%	2.70%	2.70%	2.70%	2.70%
RBA Cash Rate	4.35%	4.35%	3.60%	3.10%	3.10%	3.10%
Variable Rates - Home	5.89%	6.33%	5.58%	5.08%	5.08%	5.08%
Variable Rates - Investment	6.04%	6.48%	5.73%	5.23%	5.23%	5.23%
Monthly P&I Payments on $1m	$5,925	$6,209	$5,728	$5,417	$5,417	$5,417
Change in Monthly Payments ($)		$284	-$197	-$508	-$508	-$508
Change in Monthly Payments (%)		4.8%	-3.3%	-8.6%	-8.6%	-8.6%

Source: Cashel Family Office, RBA, NAB, Westpac and ANZ

Recommended Borrowing Strategies

Consider splitting rates between variable and 3 years fixed – hedge your bets.

- Given the current and forecast variable rates, the 3-year fixed rates for investment and home loans look attractive compared to the variable and longer-term rates. For many Borrowers, it will be lower than their current variable rate and provide a hedge against any unexpected interest rate rises. At the same time, maintaining some variable exposure will provide some upside should the rates decline (as many hope).

Be vigilant about your interest rates.

- If you are not already paying the lowest variable (or are about to have your fixed-rate expire), you should look to do so. We can aid with renegotiating with your current lender or refinancing to a new lender. There is typically a saving of 0.5-1.5% based on refinancing.

Position for opportunities.

- While there appears to be ongoing bad news in some areas of housing and business, we know that this is often a lagged reflection of where we have been, and not where we are going. As such, we should consider the news effect on market sentiment as an opportunity to invest when prices and vendors are beaten up.

Ensure your finance application is ready!

- As a self-employed applicant, if you have not prepared and lodged your 2023 tax returns, you should do so. Lenders will require these before considering providing finance to you in 2024.

Contact your Cashel Relationship Manager for help and advice on any of these strategy recommendations.

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