



Borrow

28 May 2024



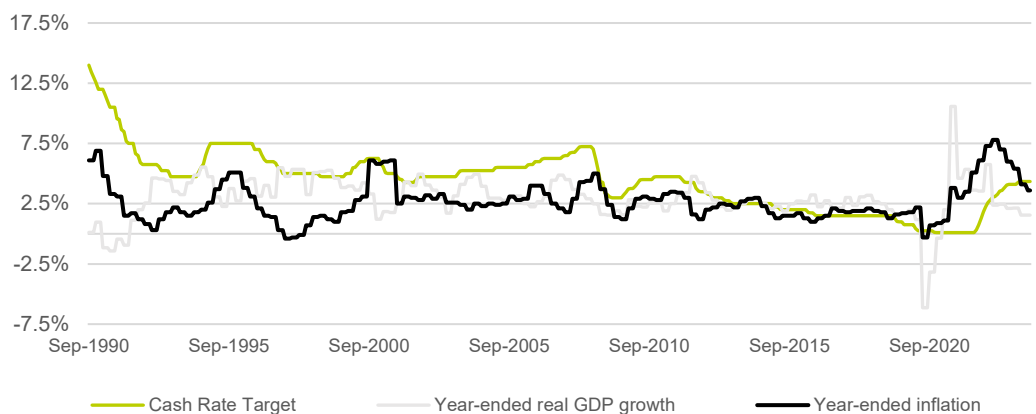
Angus Mason
Chief Executive Officer
0411 050 634
amason@cashelfo.com
Cashel Family Office

Interest rates on hold, but for how long? The latest inflation results showed slowing, but not at the speed the RBA would like. If there is any movement, it may be an increase rather than a decrease in the short term.

Cash Rates, Inflation, Wages and Real Estate Asset Prices

- On 7 May 2024, the RBA left the cash target rate unchanged at 4.35%, with its exchange settlement balances also unchanged at 4.25%. Inflation slowed but remains persistently higher than the target range. While unemployment remains at historically low levels, there are some growth issues with Australia's global trading partners, which appears to be one of the main reasons for the RBA not lifting the interest rates further.
- In deciding to maintain rates unchanged this month, the RBA commented, "*Recent data indicate that, while inflation is easing, it is doing so more slowly than previously expected, and it remains high. The Board expects that it will be some time yet before inflation is sustainably in the target range and will remain vigilant to upside risks. The path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain, and the Board is not ruling anything in or out.*"
- The most recent [RBA Chart](#) released on 8 May 2024 shows a growing divergence in the fortunes of our growth partners; in particular, India continues to grow while China has faltered. Australia's GDP growth appears to be tending down in recent quarters across mining and non-mining sectors. Inflation is trending down but still well above the sustainable target range. The savings ratio and house consumption are slowing, while consumer sentiment is at an all-time low.

Exhibit 1: GDP, Inflation and RBA Cash Rate



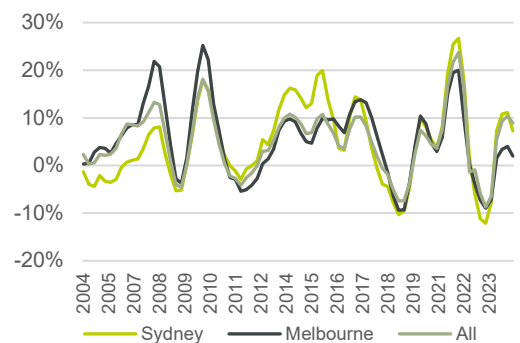
Source: ABS, RBA

Exhibit 2: Wage Growth and Unemployment



Source: ABS, RBA, CoreLogic

Exhibit 3: Annual House Price Movements





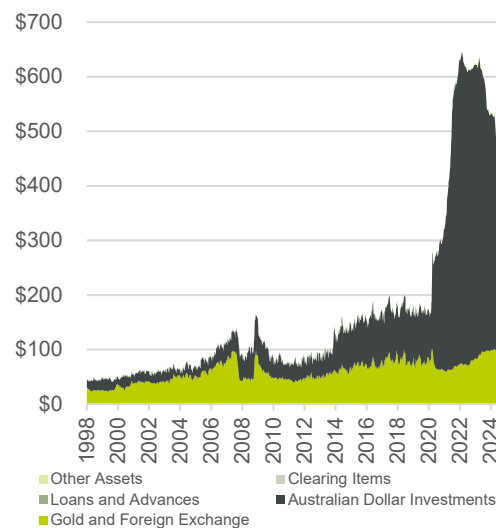
Borrow

28 May 2024

Monetary Policy and Home Servicing Ratios

- The RBA continues to reduce their asset base, clawing back some \$500 billion of stimulus made available to the Australian banking industry during COVID-19. We understand from a number of senior bank executives, that there have been no particular issues in repaying these term loans to the RBA by March 2024. However, this anecdote does not seem to align with the latest RBA balance sheet, which shows the latest level of Australian dollar investments at \$384 billion, approximately \$294 billion higher than at the start of the COVID-19 period. Perhaps this is an area to watch.
- The longer-term government bond rates have traded in a narrower band over the past month, ranging from 3.85% to 4.27%, reflecting a somewhat neutral outlook for rates over the longer term. The 10-year notes are trading around 4.26%.
- As the domestic GDP slowed, the trend of slowing or declining household assets and debt to income has also continued.

Exhibit 4: Reserve Bank of Australia Assets
\$billion



Source: ABS, RBA

Exhibit 5: Australian Government Bond Yield

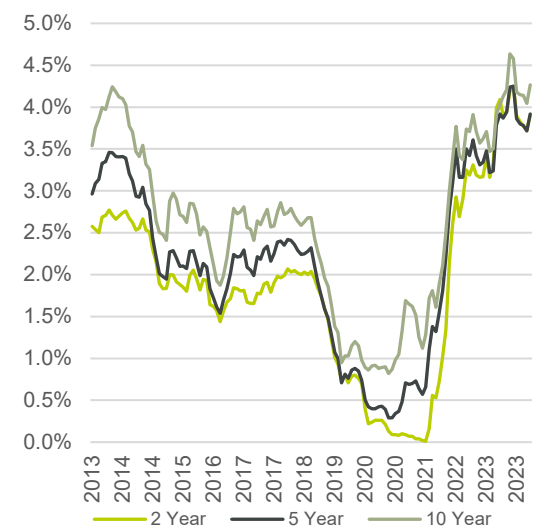
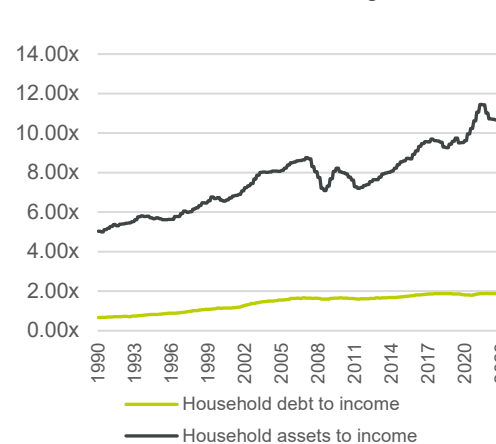
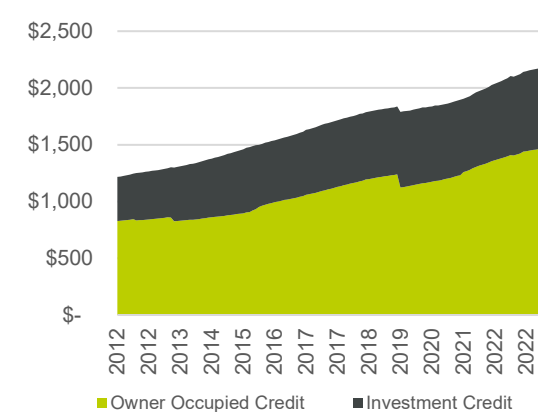


Exhibit 6: Household Debt Servicing Ratios



Source: ABS, RBA

Exhibit 7: Housing Loan Commitments
\$billion





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

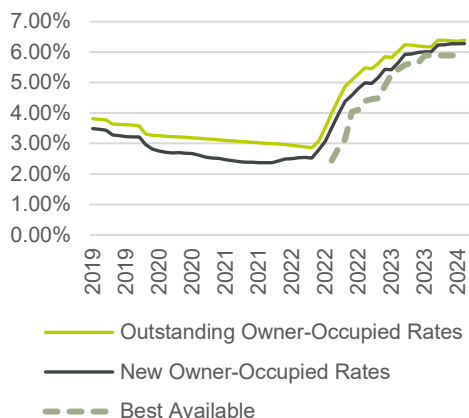
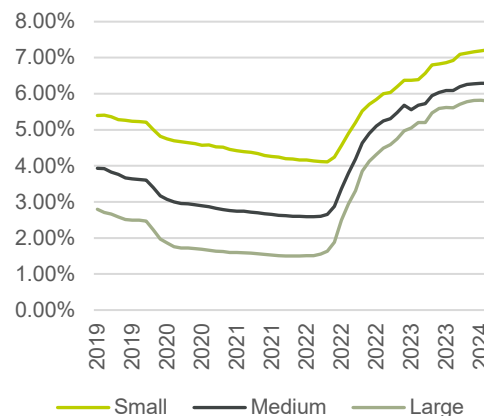


Exhibit 9: Outstanding Business Rates
Small, medium and large businesses in % per annum



Source: ABS, RBA

Access to Funding

- 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 in Melbourne over the past 12 months, with greater growth in Sydney, Perth and Brisbane.
Debt to Income Ratio	<6.0x	<6.0x	<6.0x	Neutral – Lending standards has been relatively stable over the last 12 months.
Bank Servicing Buffer + Reference Rate	7.89%	7.95%	7.28%	Positive – There has been no change in the buffer rates over the past 6 months. The only changes are through natural market movements in the variable rates.
Household Expense Measure (2 Adults, 2 Children, Modest Lifestyle)	\$6,045	\$6,500	\$6,702	Negative – We expect to see further increases in credit underwriters expectations of household expense measures as inflation increases expenses higher than wage growth.
Indicative Borrowing Capacity - For \$500,000 Income Household	\$2,530,624	\$2,454,509	\$2,587,659	Neutral – We expect a neutral effect on borrowing capacity over the next 12 months, while rates short term may rise, we expect a small decline next year.
		-6.4%	-2.3%	

Source: Cashel Family Office, Refinitive

*Typical loan to value ratio loan limits.



Borrower Loan Rates

- Following the latest inflation results, lenders took the opportunity to lift future rates. This contradicts the forecast consensus, which still appears to be promoting a rise in rates over the next year, followed by a cut in the 2-to-5-year period.

Exhibit 11: Owner-Occupied Rates

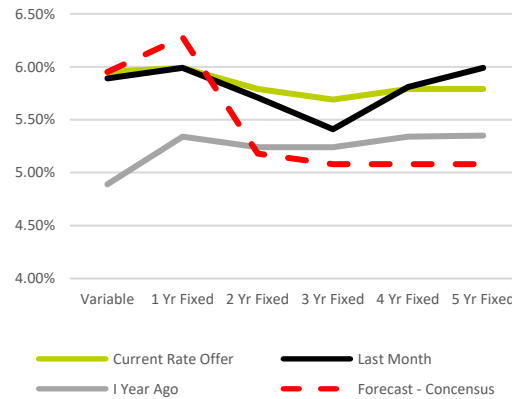
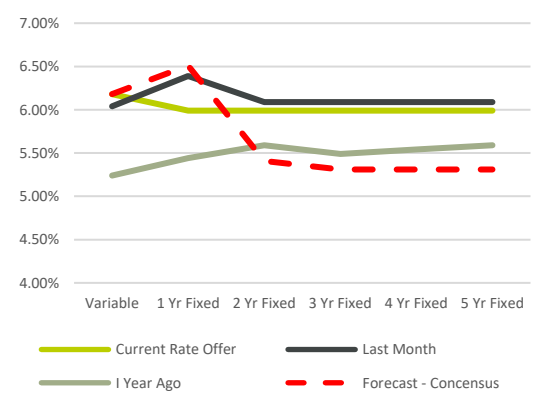


Exhibit 12: Investment Rates



Source: Cashel Family Office, Refinitive, Connective

Exhibit 13: Home Loan – Indicative Available Interest Rate Hedging

	Current	2024	2025	2026	2027	2028
Variable Rates	5.95%	6.28%	5.18%	5.08%	5.08%	5.08%
1 Year Fixed	5.99%	5.99%	5.18%	5.08%	5.08%	5.08%
2 Year Fixed	5.79%	5.79%	5.79%	5.08%	5.08%	5.08%
3 Year Fixed	5.69%	5.69%	5.69%	5.69%	5.08%	5.08%
4 Year Fixed	5.79%	5.79%	5.79%	5.79%	5.79%	5.08%
5 Year Fixed	5.79%	5.79%	5.79%	5.79%	5.79%	5.79%

Source: Cashel Family Office, Connective

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

	Current	2024	2025	2026	2027	2028
Variable Rates	6.18%	6.51%	5.41%	5.31%	5.31%	5.31%
1 Year Fixed	5.99%	5.99%	5.41%	5.31%	5.31%	5.31%
2 Year Fixed	5.99%	5.99%	5.99%	5.31%	5.31%	5.31%
3 Year Fixed	5.99%	5.99%	5.99%	5.99%	5.31%	5.31%
4 Year Fixed	5.99%	5.99%	5.99%	5.99%	5.99%	5.31%
5 Year Fixed	5.99%	5.99%	5.99%	5.99%	5.99%	5.99%

Source: Cashel Family Office, Connective

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

	Indicative Rates		Indicative Rates
Home Mortgage (Full Doc)	5.95%	SMSF Loan	7.17%
Home Mortgage (Low Doc)	7.12%	Chattel Loan	6.57%
Investment Mortgage (Full Doc)	6.18%	Personal Loan	6.57%
Investment Mortgage (Low Doc)	7.12%	Credit Card	19.82%
Commercial Loan	6.64%	HECS	4.70%
Investment Mortgage (Private Doc)	9.25%	Outstanding Taxation	11.34%
Margin Loan	9.50%		

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



Implications for Interest Rate Outlook

- Consensus forecasts expect a potential short-term rise followed by a gradual reduction in interest rates. While we do expect the possibility of a single rate rise, we don't expect that interest rates will materially lower anywhere near the ultra-low rates that we had leading into the COVID-19 period.

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

	May 2024	2024	2025	2026	2027	2028
Current Available Rates (Home)						
Variable Rates	5.95%					
Fixed Rate		5.99%	5.79%	5.69%	5.79%	5.79%
Current Available Rates (Investment)						
Variable Rates	6.18%					
Fixed Rate		5.99%	5.99%	5.99%	5.99%	5.99%
Cashel Forecast						
Inflation	4.10%	3.30%	3.20%	3.10%	2.80%	2.60%
RBA Cash Rate	4.35%	4.30%	3.20%	3.10%	3.10%	3.10%
Variable Rates - Home	5.95%	6.28%	5.18%	5.08%	5.08%	5.08%
Variable Rates - Investment	6.18%	6.51%	5.41%	5.31%	5.31%	5.31%
Monthly P&I Payments on \$1m	\$5,963	\$6,177	\$5,479	\$5,417	\$5,417	\$5,417
Change in Monthly Payments (\$)		\$213	-\$485	-\$546	-\$546	-\$546
Change in Monthly Payments (%)		3.6%	-8.1%	-9.2%	-9.2%	-9.2%

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 rates 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) and you wish to accelerate repayments (particularly for non-tax effective home loans).

Be vigilant about your interest rates.

- If you are not already paying the lowest variable, you should look to do so. We can aid you with renegotiating with your current lender or refinancing with 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, you should consider the effect of news 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 providing finance to you in 2024.

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



Borrow

28 May 2024



cashelfo.com

Melbourne | Level 14, 1 Collins Street, Melbourne, VIC 3000 phone +61 3 9209 9000 fax +61 3 8677 9903

Disclaimer

IMPORTANT NOTICE: This document has been prepared by Cashel Financial Services Pty Ltd, trading as Cashel Family Office (ABN 23 106 177 093, Australian Financial Services and Australian Credit License Number 306 803) (CFS). Please read the following before making any investment decision about any financial product mentioned in this document.

Disclosure at the date of publication: CFS, companies within Cashel Family Office, and each of their associated entities, directors, agents, employees, authorised representatives and associates (Cashel Entities) may have a material interest in and may earn brokerage or receive commissions or other benefits or advantages from, any securities or financial products referred to in this document or as a result of a transaction involving securities or financial products of the companies mentioned herein. Cashel Entities may hold shares in the securities mentioned in this document and, therefore, may benefit from any increase in the price of those securities because of the distribution of this document. Further, Cashel Entities may have acted as manager or co-manager of a public offering of any such securities in the past two years. Cashel Entities may provide or may have provided corporate finance to the companies referred to in this document.

WARNINGS: This document is intended to provide background information only and does not purport to make any recommendation upon which you may reasonably rely without further and more specific advice. To the extent that this document contains advice: (i) this is limited to general advice only; (ii) has been prepared without considering your objectives, financial situation or needs; and (iii) because of this you should therefore consider the appropriateness considering your objectives, financial situation or needs, before following the advice. To the extent that this document contains any advice, we recommend that you do not act on this advice without first consulting your investment adviser to determine whether the advice is appropriate for your investment objectives, financial situation and particular needs. Past performance is not a reliable indicator of future performance, and no representation or warranty, express or implied, is made regarding future performance.

DISCLAIMERS: This document is for the exclusive use of the person to whom it is provided by CFO and must not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this document. The Cashel Entities assume no obligation to update this document or correct any inaccuracy which may become apparent after it is given. If any advice in this document relates to the acquisition or possible acquisition of a particular financial product, you should obtain a copy of and consider the product disclosure statement, prospectus or other document for that financial product before making any decision. Save for any statutory liability that cannot be excluded, the Cashel Entities accept no liability whatsoever for any loss or damage of any kind caused by any error in, inaccuracy, or omission from, this document or arising out of the use of all or part of these materials. This document is published for information purposes and is not to be construed as a solicitation or an offer to buy or sell securities or related financial products.