



Reserve Bank Financial System Roundup

24 October 2013

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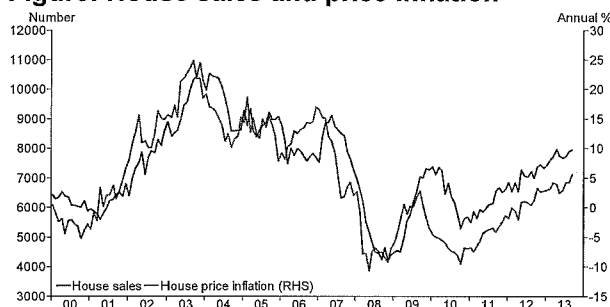
FINANCIAL MARKET DEVELOPMENTS

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FINANCIAL SYSTEM AND POLICY

Housing market strong

Recent housing market data suggests house prices continued to rise in September, with the median house price reaching a new high of \$400,000. Auckland house prices continue to rise rapidly, increasing 17 percent over the year to September. However, monthly price growth rates were already slackening a bit in September (prior to the LVR policy taking effect), suggesting the market may have already been turning slightly. The growth in the Auckland housing market has been apparent over recent years, as it now accounts for roughly 40 percent of national sales numbers and 60 percent of sales by value. In 2008 the comparable metrics were 30 percent and 40 percent respectively.

Figure: House sales and price inflation**LVR restrictions take effect**

The new LVR lending which took effect on 1 October are having an immediate effect on market behaviours, although it is too early to judge the effect on housing volumes and prices.

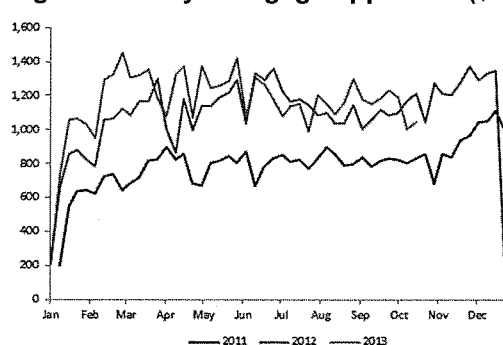
All the major banks have stopped issuing pre-approved lending undertakings on high LVR loans.

The large banks have also lowered interest rates for borrowers with at least 20 percent equity. Generally, the differential is around 50 basis points between high and low equity borrowers. On top of these higher rates, banks are still requiring low equity premiums – which are added to the cost of the loan on drawdown, and can range from 100-200 basis points – for high LVR borrowers. Higher borrowing costs will help banks to ration low equity lending under the new restrictions.

Key non-bank lenders Redacted: OIA section 18(c)(i), referring to RBNZ Act s105 appear to be also being quite restrictive with respect to high LVR borrowers, putting in a 90 percent LVR cap and introducing low-equity

premiums. The company reports a significant increase in applications recently, as it operates outside the LVR policy restrictions. We will continue to monitor the amount of mortgage lending the non-bank sector undertakes.

With the introduction of LVR restrictions, there was potential for a temporary surge in activity if buyers brought forward purchase plans in advance of the restrictions coming into force. However, there was limited evidence of such activity in September home sales and approvals data. Moreover, the first two full weeks of mortgage approvals data for October show a significant (~15%) overall drop in the value of approvals¹. This is an early indicator the policy may be significantly reducing housing market activity. The full effect won't be understood for a few months yet.

Figure: Weekly mortgage approvals (\$m)

¹ The approvals series can be quite volatile from week to week, as public holidays reduce the number of trading days. Compared to the two weeks in October of last year, approvals are down 14 percent. Previously approvals data had been showing significant annual growth.

Key regulatory/legislative initiatives (significant recent changes in blue)

<p>Macro-prudential policy</p>	<p>'Speed limits' on high-LVR residential mortgage lending are now in place. The bank is monitoring the impact of the restrictions on bank lending and the housing market, as discussed above.</p>
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<p>Review of bank capital adequacy requirements for housing loans</p>	<p>The Bank is working on a staged review of bank capital adequacy requirements for housing loans. As a result of stage one, the capital requirements for internal models banks will increase to reflect the additional systemic risk in high loan to value lending. The Reserve Bank is now consulting on stage two of the review. The consultation paper focuses on definitional issues, some of which need to be addressed in order to enhance the effectiveness of the Bank's new macro-prudential LVR policy, and some administrative aspects of internal models processes. The consultation closes on 25 October 2013.</p>
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Market Indicators

EXCHANGE RATES	Current	% change 2 weeks ago	% change month ago	% change year ago
	NZDUSD	0.8388	1.3%	1.3%
NZDEUR	0.6086	-0.7%	-1.0%	-3.8%
NZDAUD	0.8719	-0.5%	-1.1%	10.0%
NZ TWI	77.08	0.4%	-0.2%	5.9%

INTEREST RATES	Current	% 2 weeks ago	bps change month ago	bps change year ago
	OCR	2.50	0	0
NZ 90 day bank bill	2.67	-1	2	6
NZ 10 yr govt bond	4.63	-13	-4	107
Australia 10 yr govt bond	3.99	-17	8	78
US 10 yr govt bond	2.49	-19	-17	70
Germany 10 yr govt bond	1.77	-10	-8	21
UK 10 yr govt bond	2.60	-15	-20	75
Italy 10 yr govt bond	4.12	-23	-13	-72

CDS SPREADS	Current	bps 2 weeks ago	bps change month ago	bps change year ago
	NZ Govt	49	0	0
AU Banks	105	0	0	-23
EU Banks	119	-11	-18	-52

COMMODITIES	Current	% change 2 weeks ago	% change month ago	% change year ago
	WTI Oil	96.9	-5.9%	-6.0%
Gold	1,333.9	2.9%	1.4%	-21.6%
CRB	281.7	-2.0%	-1.2%	-5.4%

SHAREMARKETS	Current	% change 2 weeks ago	% change month ago	% change year ago
	S&P 500	1,748	3.3%	3.0%
Euro Stoxx 600	319.0	2.8%	1.8%	18.4%
ASX 200	5,356	4.1%	2.3%	18.9%
NZX 50	4,876	3.4%	3.5%	21.9%
VIX Volatility	13.5	-17.8%	-3.8%	-26.1%

Note: 'Current' prices measured on Thursday 24 October 2013.

