

NATIONAL HOUSING FINANCE AND INVESTMENT CORPORATION

Affordable Housing Bond Aggregator – Market update

1 November 2022



Market commentary

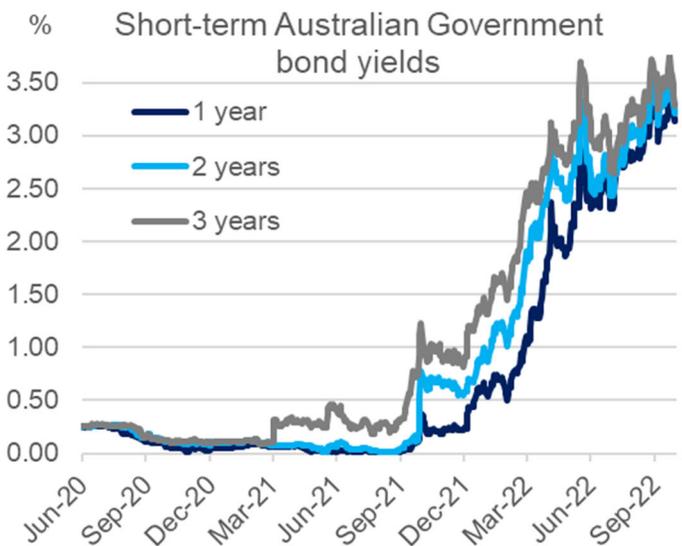
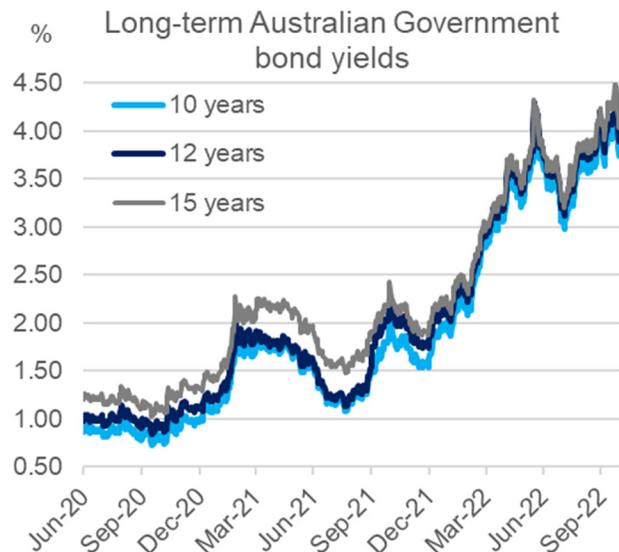
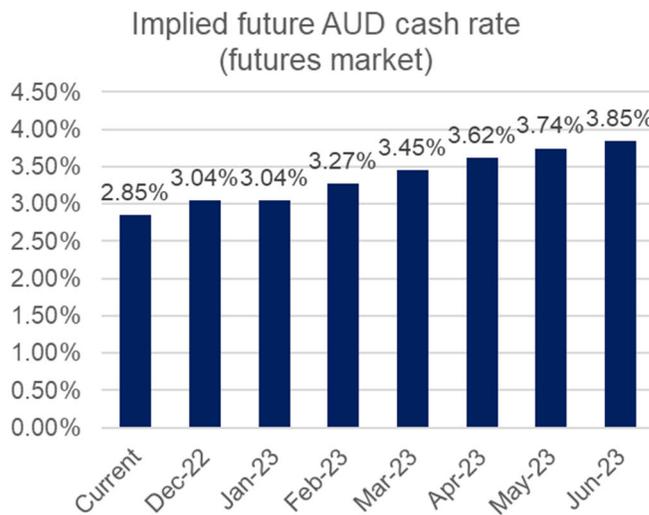
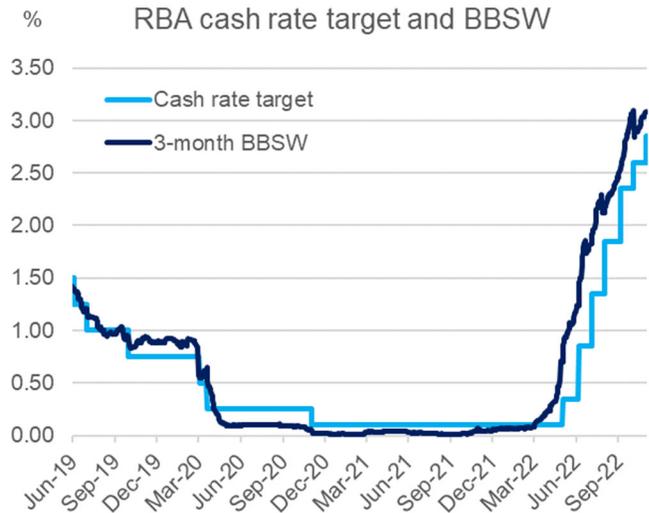
Bond yields and funding markets remained volatile during October 2022 as global financial markets remain focused on inflation and the outlook for monetary policy globally.

The Reserve Bank of Australia (RBA) increased the cash rate target by a further 0.25% to 2.85% on 1 November 2022, with the accompanying statement noting that the “Board expects to increase interest rates further in the period ahead”. Financial markets expect the RBA to increase the cash rate target by a further 0.25% in December 2022. The adjacent chart shows the cash futures market pricing of the cash rate to June 2023.

Economic data indicates that the Australian economy remains strong with a tight labor market and a resilient household sector. The RBA is forecasting inflation to peak at around 8% in late 2022 before declining as supply-side pressures ease, declines in certain commodity prices feed through and higher interest rates slow the economy. The risk is that inflation remains elevated for longer than forecast.

Long term bond yields, which determine NHFIC’s cost of funding and the interest rates we can offer to the community housing sector eased in October with the 10-year Government bond yield decreasing 0.13% to 3.76% (up 2.09% calendar year-to-date). As at 31 October 2022, we estimate NHFIC’s 10-year cost of borrowing to be 4.46%, a premium of approximately 70 basis points above the 10-year Government Bond yield.

The charts below show long- and short-term Government bond yields which drive the cost of NHFIC’s finance to the community housing sector.



The following table shows the estimated cost of long-term fixed and floating rate funding for NHFIC as at 31 October 2022. The interest rates that NHFIC can offer Community Housing Providers (CHPs) for lending to established properties typically ranges from 0.65% to 1.00% above NHFIC's funding cost (excluding establishment fees) depending on the nature and terms of the loan. Higher margins apply for construction lending.

NHFIC's estimated AHBA cost of funds	10 years	12 years	15 years
Fixed rate cost of funds	4.46%	4.63%	4.80%
Floating rate cost of funds (3M BBSW plus)	0.14%	0.25%	0.39%
<u>3 month BBSW</u>	<u>3.09%</u>	<u>3.09%</u>	<u>3.09%</u>

CHPs interested in AHBA finance should speak to their NHFIC Relationship Manager for information on the relevant margin applicable to their project.

Note

The source of all market data in this report is Bloomberg.

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