ANZ Research

RBNZ OCR Review

25 September 2019

This is not personal advice. It does not consider your objectives or circumstances. Please refer to the Important Notice.

Contact

Sharon Zollner
Chief Economist
Telephone: +64 27 664 3554
Sharon.Zollner@anz.com

Put on your happy face

- As universally expected, the RBNZ left the OCR on hold. The door was left open to further cuts but not opened further, with the RBNZ stating that "new information since the August Monetary Policy Statement did not warrant a significant change to the monetary policy outlook".
- The RBNZ continue to expect a pick-up in domestic demand over the coming year due to easier monetary conditions and fiscal spending. We are sceptical.
- We continue to forecast three more 25bp cuts (in November, February and May) taking the OCR to just 0.25%.

Key points

As universally expected, the RBNZ left the OCR unchanged at 1.00% at its Official Cash Rate Review today, but the tone was a bit more upbeat than the market was expecting. The RBNZ noted that "there remains scope for more fiscal and monetary stimulus, if necessary", but concluded that "new information since the August Monetary Policy Statement did not warrant a significant change to the monetary policy outlook". We anticipate that they will be convinced by November, however, when we expect the next 25bp cut to be delivered.

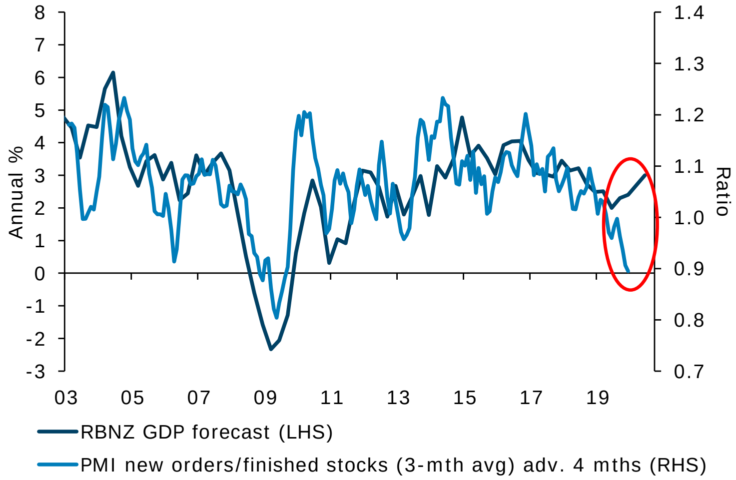
The RBNZ acknowledged that subdued global growth and low business confidence here at home were dampening the outlook. However, outside of business sentiment, the recent weaker data flow (PMI, Truckometer, job ads) that we're reading as pretty meaningful was not acknowledged. The Reserve Bank's unanticipated 50bp cut in August seems to have caused some alarm amongst firms and consumers, so perhaps today's statement was carefully worded so as to reassure. The RBNZ argues that "low interest rates and increased government spending are expected to support a pick-up in domestic demand over the coming year."

In the Summary of Meeting the Committee noted risks to the outlook, but this time refrained from using the word "downside".

- Elevated global trade and geopolitical tensions remain in focus – and their implications for the global outlook, and ultimately demand for New Zealand's goods and services.
- Domestically, low business confidence remains on the RBNZ's radar, noting policy uncertainty and low profitability in some sectors are key factors.
- Fiscal policy remains a key growth driver in the Committee's eyes, but they note the risk that this could run into delays – we think that's quite likely.
- Slipping inflation expectations were discussed, but so too was the "potential for rising labour and import costs to pass through to inflation more substantially over the medium term."

We agree that it isn't one-way traffic out there: monetary conditions are looser, near-term inflation indicators are actually looking a bit stronger, and cost pressures are real. But the strong downward trend in a reliable suite of forward indicators suggest that GDP growth is set to disappoint the RBNZ's expectations over the rest of this year at least, and we anticipate that by November the RBNZ will have run out of patience again.

Figure 1. RBNZ August MPS GDP forecast & PMI new orders/inventories



Source: Business NZ, BNZ, ANZ Research

The tensions between monetary policy and financial stability objectives are real at the moment, with the most effective channel for monetary policy in New Zealand being giving the housing market a gee-up, while the LVR restrictions that are still in place are designed to reduce riskier housing lending. In the Summary of Meeting it was noted that "the Committee discussed the secondary objectives from the remit and remained comfortable with the monetary policy stance." The secondary objectives include efficiency and soundness of the financial system. If the housing market were to respond vigorously to the lower mortgage rates on offer then the RBNZ will face a tricky choice, but for now, financial stability risks don't appear to be being exacerbated.

The bottom line

In our view, a "watch, worry (in private), and wait" stance at this point is very defensible. There has been a substantial easing in financial conditions in the past year, and as was noted in the Summary of Meeting, there are "long and variable lags between monetary policy decisions and outcomes". Interest rates have fallen substantially and the NZD is lower, and there is time to see what effect this has on confidence and economic activity.

But nonetheless, forward indicators such as the ANZ Truckometer indexes suggest that growth is going to continue to slide over the remainder of the year at least, weakening the medium-term inflation outlook. And with inflation expectations already low and falling, we suspect the RBNZ will again feel the need to shoot first and ask questions later – unleashing what little conventional firepower it has left by mid-next year. We continue to expect 25bp cuts in November, February, and May to take the OCR to 0.25% – around its useful limit.

Market reaction

The market was caught a little off-guard by the upbeat tone of the RBNZ's September OCR Review, which saw the NZD rally 0.6% on the release. While no change was expected by markets, participants were anticipating a statement dovish enough to support market pricing for the November MPS (and beyond). This saw the odds of a November 25bp cut fall to 76%, down from an almost-certain 92% chance priced in earlier today. The yield on the 10-year NZ Government bond reacted more modestly, rising 1bp. We expect the NZD to remain buoyed by the Statement in the near term, while yields are likely to rise further as the market continues to digest this afternoon's decision.

RBNZ news release key quotes (re-ordered by theme)

	New: 25 September 2019	**Previous**: 7 August 2019
OCR decision	The **Official Cash Rate (OCR) remains at 1.0 percent**. The Monetary Policy Committee agreed that n**ew information since the August *Monetary Policy Statement* did not warrant a significant change to the monetary policy outlook.**	The **Official Cash Rate (OCR) is reduced to 1.0 percent**. The Monetary Policy Committee agreed that a lower OCR is necessary to continue to meet its employment and inflation objectives.
Growth outlook	Business confidence remains low in New Zealand, partly reflecting policy uncertainty and low profitability in some sectors, and is impacting investment decisions.	GDP growth has slowed over the past year and **growth headwinds are rising**. In the absence of additional monetary stimulus, employment and inflation would likely ease relative to our targets.
Global	Global trade and other political tensions remain elevated and continue to subdue the global growth outlook, dampening demand for New Zealand's goods and services. Global long-term interest rates remain near historically low levels, consistent with low expected inflation and growth rates into the future. Consequently, **New Zealand interest rates can be expected to be low for longer**.	Global economic activity continues to weaken, easing demand for New Zealand's goods and services. Heightened uncertainty and declining international trade have contributed to lower trading-partner growth. Central banks are easing monetary policy to support their economies. Global long-term interest rates have declined to historically low levels, consistent with low expected inflation and growth rates into the future.
Employment & Inflation	Employment is around its maximum sustainable level, and inflation remains within our target range but below the 2 percent mid-point. Keeping the OCR at low levels is needed to ensure inflation increases to the mid-point of the target range, and employment remains around its maximum sustainable level. **There remains scope for more fiscal and monetary stimulus, if necessary**, to support the economy and maintain our inflation and employment objectives.	Employment is around its maximum sustainable level, while inflation remains within our target range but below the 2 percent mid-point. Recent data recording improved employment and wage growth is welcome. Our actions today demonstrate our ongoing commitment to ensure inflation increases to the mid-point of the target range, and employment remains around its maximum sustainable level.
OCR outlook	Low interest rates and increased government spending are expected to support a pick-up in domestic demand over the coming year. Household spending and construction activity are supported by low interest rates, while the incentive for businesses to invest will grow in response to demand pressures.	In New Zealand, low interest rates and increased government spending will support a pick-up in demand over the coming year. Business investment is expected to rise given low interest rates and some ongoing capacity constraints. Increased construction activity also contributes to the pick-up in demand.

Important notice

This document is intended for ANZ's institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of 'wholesale clients' (as defined in section 761G of the Corporations Act 2001 Cth).

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (**ANZ Royal Bank**). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): ***United Kingdom.*** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Important notice

Myanmar. This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (**ANZ Representative Office**) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

United States. Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64-9-357 4094, e-mail nzeconomics@anz.com, http://www.anz.co.nz