

RBNZ OCR Preview

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Holding pattern

- Next Wednesday we expect the RBNZ will leave the OCR at 1.5%.
- Data since the May *MPS* has on balance been consistent with the Reserve Bank's May expectations. Nonetheless, the tone of the Review may be influenced by increasingly dovish global central bank peers.
- We are forecasting a further OCR cut in November, with another to follow in February. However, with very limited tolerance on the part of the RBNZ for any downside surprises, the risks are skewed toward an earlier move.

Key points

We expect the RBNZ will leave the OCR unchanged at 1.5% at its Official Cash Rate Review next Wednesday at 2pm. The RBNZ will reaffirm they remain data dependent and open minded about whether another OCR cut will be required. However, we suspect that given the dovish capitulation of central banks globally in the face of marked risks both economic and political, the Committee might just be **verging on pleasantly surprised if it weren't, in time.**

For now, though, things have been evolving on balance much in line with the **Reserve Bank's (sharply lowered) expectations.**

- Q1 GDP was 0.6% q/q versus RBNZ expectations of 0.4%, but the details were weak, particularly the softness of services.
- **There's a slightly bigger fiscal stimulus on the way.**
- The slight upward revision to Q1 GDP and the slightly lower-than-expected unemployment rate in Q2 might mean the RBNZ concludes there is slightly less starting point slack in the economy.
- Global Dairy Trade prices have fallen in the past three auctions, but this appears to be related to higher supply, and the price level is still in line **with the RBNZ's medium-term assumption.**

Leading indicators are telling different stories. The Truckometer Light Traffic Index **appears to be finding a floor, consistent with the RBNZ's and our** expectation that annual growth is about to trough, but the ANZ Business Outlook survey continues to point more firmly down. Anecdotal evidence out of the construction sector suggests a residential slowdown is coming, but timing and magnitude is very uncertain. Interest rates and the exchange rate are lower, the labour market remains tight, and most commodity prices are still very good.

On the inflation side, our ANZ Monthly Inflation Gauge remains pretty directionless outside of housing, while inflation expectations have slipped a little in our Business Outlook survey.

All up it is hard to argue that the economy is in need of another OCR cut urgently. But global growth risks are accumulating, and their shadow appears to be influencing employment and investment decisions here. And central bank peers in Australia, Europe and the US have made a coordinated dovish turn. **The Committee will be aware that if they don't do the same to some extent, the NZD could lift.** We therefore expect some tweaks to head off this possibility, perhaps acknowledging that the risks of a further OCR cut are growing, while stopping short of **saying it's a probability.**



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