OCR cut odds rising rapidly

- As the COVID-19 outbreak continues to spread globally and the human and economic toll becomes clearer, the odds of RBNZ OCR cuts are rising.
- The situation will continue to evolve at bewildering speed.
- The ‘short sharp shock’ scenario is rapidly giving way to a more prolonged hit to growth. We will expound more on these themes in our ANZ Weekly Focus on Monday.

Updating macroeconomic forecasts has become a weekly exercise, such is the speed of developments around the COVID-19 outbreak. This is primarily a human event, but it has enormous and complex economic implications. While there is a great deal of uncertainty regarding how things will pan out, the direction of the shock is clear, and the magnitude is growing by the day, as is the speed at which the situation is unfolding.

The situation is serious. The virus is spreading rapidly, and the spread is likely to accelerate further in coming days. This is not “just a flu”, and authorities are not overreacting. The illness is mild for most people. But unlike the regular flu, no one has immunity, meaning health systems could be overwhelmed by the sheer numbers. That fact means there is a moral imperative for governments to do everything possible to slow the course of the virus, at any short-term economic cost. And they will. The New Zealand Government’s pandemic plan is consistent with that. And minimising the movement of people takes a heavy economic toll, as China is finding.

Turning to the economic impacts, we’ve already seen an abrupt hit to our trade logistics with China. Goods exports were hit first, and while the situation at China’s ports is improving, it’s far from business as usual, particularly for chilled and frozen product. Tourism also took a hit immediately via the travel ban with China. And on the import side, there’s an air bubble in the supply pipeline of all kinds of goods, from t-shirts to building materials, as we discussed in our Weekly Focus last week. For now, it’s an inconvenience, but the longer the disruption persists, the greater the risk that it curtails domestic economic activity down the track, leading to a synchronised and persistent slowdown across domestic industries.

But since we updated our forecasts last week, the virus has morphed from a shock to our largest trading partner, to a global, synchronised event. Infections are rising in Japan, South Korea and Italy, and popping up in more and more countries. A global recession is looking more likely by the day. Equities are having a meltdown.

It is widely accepted as inevitable that New Zealand will also experience cases, which could have negative implications for sentiment and discretionary economic activity even if the virus is repeatedly promptly stamped out. And even if we somehow dodged the virus arriving on our shores, it’s clear that global industrial production at least is going to be under huge pressure, as a result of supply chain disruption. That’s the pointy end of global GDP but it will feed through into employment and broader activity if sustained. New Zealand’s commodity prices do cycle with global demand, even putting aside the near-term question of whether we can even get our goods to market.
This is a very complex shock, more like a war than a traditional economic slowdown, in that it includes massive disruption to the supply side of the economy, as well as to demand. It is impossible to forecast its impacts accurately. But it’s very clear they aren’t going to be anything good. And it’s increasingly clear that they aren’t going to be brief.

In the face of such a shock, the NZD typically acts as a buffer to support the economy. And fiscal policy is well placed to respond in a targeted fashion to support businesses. New Zealand is fortunate to have plenty of firepower on that front. What about monetary policy? It’s true that lower interest rates aren’t going to encourage much borrowing and activity if confidence is low and everyone is hunkering down. But monetary policy can still help, and it is becoming increasingly likely it will be needed. OCR cuts would put downward pressure on the exchange rate, reduce financing costs for under-pressure businesses and households, and aid confidence at the margin. And it’ll help the economy bounce out the other side of this. Fiscal policy needs friends too.

Given how rapidly the virus is spreading, it’s entirely possible we could be looking at OCR cuts in short order, potentially kicking off as soon as March. But at this stage, we’d say May is more likely. The market is currently pricing a full cut by August, with a chance of more. We’re not quite over the line to call cuts yet. With uncertainty high, the RBNZ – and we – have a bit of time to see how things pan out. But frankly, probably not much.
This document is intended for ANZ’s Institutional, Markets and Private Banking clients. 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 contact your ANZ point of contact.

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

**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.

**Myanmar.** This publication is intended to be general and part of ANZ’s customer service and marketing activities when implementing its funding 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 CNV/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, nor be translated or reproduced in any way, without the prior written consent of ANZ. 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, nor be translated or reproduced in any way, without the prior written consent of ANZ. This document is distributed in the United States by ANZ Securities, Inc. (registered as a broker-dealer with the SEC and a member of FINRA and SIPC). This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the United States; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the United States under the laws, regulations and rules of, jurisdictions outside of the United States and the PRC. 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 below; 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 product, as defined under the DIFCML No. 1 of 2000. 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 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 09-935 4094, e-mail nzecomics@anz.com, http://www.anz.co.nz