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## Wait and watch, no worries

### Key points

As expected, the Reserve Bank kept its head down at today's Monetary Policy Review, making no changes to the OCR, FLP or LSAP and reiterating its messages from the February Monetary Policy Statement.

- The OCR was left at 0.25% with no changes to the overall size, duration and general terms of the FLP and LSAP programmes.
- The RBNZ reiterated its "wait and see" and "least regrets" approaches.
- The RBNZ noted both upside and downside risks to the outlook and stressed it is on the case.

### Same, same..

There was no reason for the RBNZ to deviate today from its "wait and see" and "least regrets" strategy, nor to set out to influence market pricing for OCR hikes, with the market on-board with the RBNZ's message that tightening remains a distant prospect.

In short, the New Zealand economy is evolving broadly in line with RBNZ expectations, and there's time to see how more recent developments impact things.

The RBNZ reiterated that "the outlook remains highly uncertain"; "risks to the economic outlook remain balanced"; that meeting its targets "will necessitate considerable time and patience"; and that it remains "prepared to lower the OCR if required."

The RBNZ spent several paragraphs in the Summary Record of Meeting clarifying that "the objectives of monetary policy in the new remit remain unchanged." Local market participants certainly understand that well, but global reporting has tended to conclude that the Government has made a meaningful intervention into the conduct of monetary policy.

### ... but different

There have been some interesting developments since February, and the RBNZ acknowledged these, each one with a "but" or a "however":

- The removal of interest deductibility for property investors. The RBNZ's initial take is that the policies "are likely to dampen house price growth, but the extent of the effect and implications for consumer price inflation, and employment will take time to be observed."
- Regarding the trans-Tasman bubble, the RBNZ was similarly circumspect, noting it "should support incomes and employment in the tourism sector both in New Zealand and Australia. However, the net impact on overall domestic spending will be determined by the two-way nature of this travel."
- A global economic outlook that has "continued to improve." But again, a "however": "However, economic uncertainty remains elevated and divergences in economic growth both within and between countries are significant."

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The RBNZ also briefly discussed other factors and risks that we have also highlighted, on both the upside (“robust export commodity prices”) and the downside (“supply chain disruptions could potentially constrain domestic activity in the near term”).

Whereas in February the RBNZ suggested banks should still be cutting mortgage rates (“The Committee agreed it expects to see the full pass-through of lower funding costs to borrowing rates, and it will closely monitor progress”), the RBNZ this time noted that “any increase in bank lending rates would be premature” – an implicit acknowledgement that funding costs for banks are no longer falling, and indeed that some upward pressure may be in the pipeline, depending on borrowing demand and global market developments.

On inflation, cost-driven pressures were acknowledged, but unsurprisingly, “members consider the impact on inflation from supply chain disruptions and oil price increases to be temporary.” The risk that inflation expectations could rise was noted, but given they’re currently “at or below the 2 percent target midpoint” this is not a pressing concern.

But with no forecasts published today and increasing assurance that deflationary risks have been dodged, the RBNZ is under no pressure to make any bold calls about how precisely things will turn out. “Time and patience” remains the mantra. As you were.

### Market reaction

The key messages in today’s MPR were pretty well as we and the street expected, and with all three major policy settings (the OCR, LSAP and FLP) left as they were, it’s not surprising that we saw a limited immediate market reaction.

We don’t expect much more of a reaction as the MPR gets digested, but the tone was dovish, and with markets still pricing in greater than 50% odds of a hike by mid-2022, there is scope for the short end (and the NZD) to drift lower.

The RBNZ did reduce the pace of LSAP purchases next week by \$20m to \$400m, but we don’t read anything significant into that. As the MPC again reiterated today, “weekly changes in the LSAP do not represent a change in monetary policy stance” and RBNZ staff (as opposed to the MPC) “would continue to adjust weekly bond purchases as appropriate, taking into account market functioning”.



## Contact us

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