

RBNZ Monetary Policy Review Preview

28 September 2022



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Summary

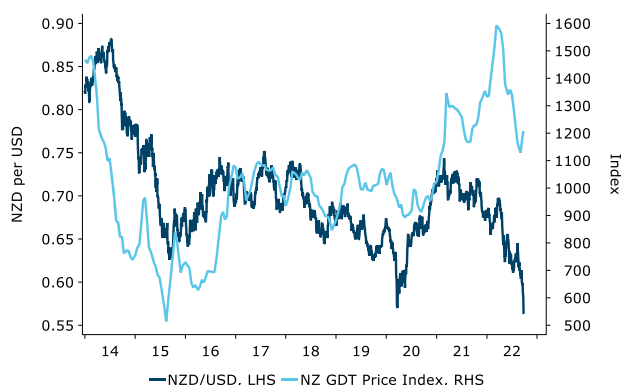
- We expect the RBNZ will raise the Official Cash Rate (OCR) 50bp to 3.50% at its Monetary Policy Review (MPR) next Wednesday.
- On balance, local data since the August MPS has not brought any large surprises. But global central banks have become a lot more hawkish.
- We continue to [expect](#) the OCR to reach a peak at 4.75% by mid-2023.

Signalled, expected, priced

The RBNZ made it clear at the August Monetary Policy Statement that it strongly intends to raise the OCR by 50bp at the October and November meetings before sitting back over the long summer break to assess. The data since then has provided no compelling reason to diverge from that plan.

- GDP growth came in close to the RBNZ's expectations.
- The labour market (eg the [monthly employment indicator](#)) and inflation indicators (eg pricing intentions) remain robust, arguing against a slowing in the pace of hikes.
- Meanwhile global growth risks are escalating, and 75bp hikes have been all but ruled out by the Governor in any case.
- The NZD is almost 6% lower on a trade-weighted basis since the August MPS, while the GlobalDairyTrade price index has rebounded 7% from its lows. The ongoing disconnect between still-high export commodity prices and the low NZD is a significant offset to financial conditions (figure 1).

Figure 1. NZD vs GlobalDairyTrade price index



Source: Global Dairy Trade, Bloomberg, Macrobond, ANZ Research

All up, we expect a reiteration of the messages from the August MPS: the labour market is stretched, downside growth risks exist, but the RBNZ is committed to getting inflation down, and while they've already done a lot, the RBNZ stands ready to respond to developments as they occur. As you were.

Markets

Markets are pricing in a 54bps hike. While that's a touch overcooked, we doubt we'll see a significant correction given that the market is also pricing in a 4.7% peak in the OCR, which is what really matters for the short end. But even then, global factors are currently in the driver's seat, and that suggests local factors will be short-lived.



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