

## NEW ZEALAND ECONOMICS PREVIEW OF RBNZ OCR REVIEW

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### CONTRIBUTORS

**Cameron Bagrie**  
Chief Economist  
Telephone: +64 4 802 2212  
E-mail: cameron.bagrie@anz.com

**Philip Borkin**  
Senior Economist  
Telephone: +64 9 357 4065  
E-mail: philip.borkin@anz.com

## STEADY AS SHE GOES

### KEY POINTS

- **We see the RBNZ maintaining the OCR at 2.25% next week.**
- **We are not buying into the notion that recent developments, particularly the rising NZD, bring an April cut into play.** While the March surprise highlights the potential for another, the RBNZ has expressed a preference for moving on *MPS* as opposed to *Review* dates in the absence of material shifts in information. With regards to the currency, it's hard to see how a further rate cut could substantially influence the direction of the NZD (December and March cuts certainly didn't) amidst actions of other central banks. The NZD is also stronger for some good reasons (better risk appetites and commodity prices). Economic information gleaned since the March *MPS* (domestic demand in particular) has generally augured better for the economy and non-tradable inflation was a tad firmer than the RBNZ expected.
- **That said, we expect dovish nuances and a firm easing bias to remain** ("further policy easing may be required") – **an implicit hat tip to NZD strength.**
- **Beyond April, we consider it far from a forgone conclusion that the OCR will be cut again in June (which the RBNZ implicitly laid out in the March Statement).**
  - While global growth projections from the likes of the IMF have eased, financial market volatility has settled. The latter might prove temporary, but there has been a material change in the global setting compared to when the RBNZ was last preparing its forecasts.
  - Commodity prices, including oil, are materially off lows.
  - The domestic economy continues to track at least as strong as the RBNZ was projecting in March.
  - Housing markets are now booming across most parts of the country at a time debt levels are already extended (and rising), and the Auckland market is showing tentative signs of renewed life.
  - Headline inflation remains low, but annual inflation from a range of core measures is now ticking higher. Quarterly non-tradable inflation has lifted for two consecutive quarters and capacity pressures are evident, particularly in the likes of construction.
- **We are nonetheless retaining our view that the OCR will indeed be lowered at some stage going forward.** We put the probability of a June cut at 60%. The combination of dairy pressures, likely renewed global unease, elevated NZD, the pending higher average cost of funds for banks and a likely further prudential policy response towards housing are powerful forces keeping rate cuts on the table. However for now, amidst a very solid domestic economic backdrop, we see little urgency. The weight of more positive economic developments needs to be acknowledged by the RBNZ, despite likely palpitations over NZD strength.

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