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NOTHING TO SEE HERE

KEY POINTS

- **The RBNZ will once again leave the OCR at 1.75% on Thursday**, which is a view shared by the economist consensus and market. We described the RBNZ's tone at the May MPS as "aggressively neutral". Well, a hat-tip is necessary, as developments since have reinforced the appropriateness of a neutral bias, with the market continuing to push out rate hike expectations.
- **Since May we note:**
 - **GDP growth has disappointed.** The RBNZ thought sluggish growth at the end of 2016 was largely temporary – as did we. Softness in Q1 2017 needs to be acknowledged. Growth is arguably now below trend (at least on a quarterly annualised basis). That's hardly inflationary. **Forward indicators are better, and we're backing growth to pick back up.**
 - **The terms of trade have surged and dairy incomes have improved. That's been countered by the stronger NZD, however.**
 - **The Budget was slightly more expansionary than previously presented.** But not so materially as to warrant a shift in stance.
 - **Competition for deposits is apparent**, putting pressure on borrowing rates. Credit is more difficult to obtain; credit growth is cooling.
 - **Inflation nuances have been mixed.** Inflation expectations have risen further (but only to around the target mid-point) and firms' pricing intentions have continued to drift higher. The latest food price inflation suggests the unwind of the Q1 surge will be delayed, posing upside risks to the RBNZ's inflation forecasts. Yet the RBNZ has told us it will look through temporary influences, and most importantly, our Monthly Inflation Gauge continues to show anything but a broad-based story.
 - **Housing has continued to cool**, particularly in Auckland.
 - **Global inflation pressures look to be turning lower.** The headline impetus to inflation from lifts in oil prices has faded, and oil prices have receded. Even countries where core inflation was rising (the US) have seen it shift back down over recent months.
- **That combination points to the RBNZ having an extended policy siesta and reaffirming its patient, yet watchful stance.** While key reasons for the RBNZ cutting in 2015 and 2016 (lower terms of trade and receding inflation expectations) have corrected, that's being countered by the NZD, lack of movement in core inflation (globally and here), a slower housing market and financial conditions tightening via the credit channel.
- **We still have the view that the underlying pace of economic momentum is such that spare capacity is gradually being absorbed.** Labour market signals are tightening. At some stage that will require a shift to an explicit tightening stance by the RBNZ, but it is a long way away from embracing that mind-set. Instead its focus is on evidence that *actual* inflation is picking up and broadening. We're simply not seeing that at present.
- **We expect very similar wording to that expressed in the May MPS – a case of 'move on, nothing (much) to see here'.** Monetary policy will remain accommodative for an extended period.

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