



PREVIEW: RBNZ Rate Decision Scheduled for 24th May 2023 at 03:00BST/22:00EDT

- RBNZ expected to hike the Official Cash Rate by 25bps to 5.50% on Wednesday as forecast by 21 out of 25 economists surveyed by Reuters, while money markets are pricing a near coin flip between 25bps and 50bps.
- RBNZ surprised markets at the last meeting with a greater-than-expected 50bps rate increase, while the Committee also agreed it must continue to raise the OCR.
- Softer-than-expected CPI data and lower inflation expectations support the view of a downshift in the pace of tightening.
- Focus will also be on the statement for guidance and whether the Bank continues to signal further hikes, as well its forecast for the peak rate, while the RBNZ will hold a press conference one hour after the decision.

OVERVIEW: The RBNZ will conduct its latest monetary policy meeting on Wednesday where the central bank is expected to continue hiking rates with 21 out of 25 economists surveyed by Reuters forecasting the OCR to rise by 25bps to 5.50% and only 4 predicting a pause, while money markets price in a 57% chance of a 25bps increase and a 43% chance of a more aggressive 50bps move.

RBNZ DELIVERED A LARGER-THAN-EXPECTED HIKE AT THE LAST MEETING: The RBNZ surprised markets at the last meeting in April whereby it delivered a larger-than-expected rate increase of 50bps (exp. 25bps hike), which was the central bank's 11th consecutive rate hike, while its language remained hawkish as it stated that the OCR needs to increase and the Committee agreed it must continue to tighten to return inflation to the 1%-3% target band and fulfil its remit. Members also observed that inflation was still too high and persistent, as well as noting risks to inflation pressure from fiscal policy skewed to the upside, but acknowledged that the rapid pace and extent of tightening to date implies monetary policy is now in contractionary territory. Furthermore, the Committee expects to see a continued slowing of domestic demand and moderation in core inflation and inflation expectations with the extent of this moderation to determine the direction of future monetary policy.

SOFTER INFLATION AND INFLATION EXPECTATIONS SUPPORT THE VIEW OF A DOWNSHIFT IN THE PACE OF HIKES: Consumer inflation data for Q1 was softer-than-expected which supports the view for a less aggressive approach with CPI QQ at 1.2% vs. Exp. 1.7% (Prev. 1.4%) and YY at 6.7% vs. Exp. 7.1% (Prev. 7.2%). Furthermore, inflation expectations have eased with the 1yr view at 4.3% (Prev. 5.1%) and 2yr at 2.8% (Prev. 3.3%). This supports the case for a potential downshift in the pace of rate hikes, although further rises remain likely given that the current level of inflation is still firmly above the central bank's 1%-3% target range, while New Zealand's recent budget announcement which included significant fiscal measures is also seen raising the probability of further rate increases.

ANNOUNCEMENT: The announcement is scheduled for 03:00BST/22:00EDT in which the initial focus will be on the rate decision given that money markets are pricing a near coin flip between a 25bps or 50bps move. Attention will then turn to the statement for clues on future policy as continued suggestions of a further rate increase would provide a tailwind for NZD and likely spur an adjustment in the current median view amongst economists for the central bank to pause after this meeting, while an upward revision to the peak rate forecast of 5.50% could also trigger a hawkish reaction. Furthermore, the meeting will then be followed by the Monetary Policy Statement press conference and Q&A which will begin one hour after the rate decision. Note, implied volatility via options indicates a 50 bp break-even in NZD/USD over the event.

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