



PREVIEW - RBNZ Policy Announcement on Wednesday at 02:00BST/21:00EDT

- RBNZ is unanimously expected to continue cutting rates from the current 5.25% level at its meeting on Wednesday.
- Most economists expect a 50bps cut and the RBNZ Shadow Board is evenly split, while money markets priced a 99% chance of a 50bps reduction.
- A contraction in New Zealand's economy during Q2 supports the case for a cut.

OVERVIEW: The RBNZ is unanimously expected to continue cutting rates at its meeting on Wednesday with 17 out of 28 economists surveyed by Reuters forecasting a 50bps cut in the OCR to 4.75% from the current 5.25% level and with the remaining 11 calling for a 25bps cut, while the NZIER RBNZ Shadow Board is evenly split between a 25bp and 50bp cut although money markets are pricing over a 99% likelihood of a 50bps reduction.

RBNZ CUT RATES AT THE LAST MEETING: The RBNZ delivered a 25bps cut at the last meeting in August amid mixed views among analysts regarding a cut or a hold although money markets had priced a greater chance of a cut, while the central bank's OCR projections also suggested a further cut by year-end and for the OCR to decline 101bps by mid-2025. The central bank's rhetoric was also less hawkish at that meeting as although it stated that members noted that monetary policy would need to remain restrictive for some time to ensure that domestic inflationary pressures continue to dissipate, the committee agreed there was scope to temper the extent of monetary policy restraint and observed that the balance of risks has progressively shifted since the May monetary policy statement. Furthermore, it stated that the pace of further easing will thus be conditional on the committee's confidence that pricing behaviour is continuing to adapt to a low-inflation environment and that a broad range of high-frequency indicators point to a material weakening in domestic economic activity in recent months. During the press conference, RBNZ Governor Orr noted confidence that inflation is back in its target band and that they can commence re-normalising rates, while he revealed that they considered a range of moves including a 50bps cut but the consensus was for a 25bps move which he said was a relatively low-risk start.

RHETORIC SINCE THE LAST MEETING AND DATA SUPPORTS THE CASE FOR A FURTHER CUT: RBNZ Governor Orr commented the following day after the August meeting that they are to proceed with caution in adjusting interest rates and that removing restraint is appropriate for now. This suggests the central bank is likely to continue lowering rates, while recent GDP data also supports the case for a reduction after the New Zealand economy contracted in Q2 with GDP QQ at -0.2% vs. Exp. -0.4% (Prev. 0.2%, Rev. 0.1%) and GDP YY at -0.5% vs. Exp. -0.5% (Prev. 0.3%, Rev. 0.5%).

ANNOUNCEMENT: The announcement is scheduled for Wednesday at 02:00BST/21:00EDT where the focus will be on the magnitude of the unanimously anticipated rate cut as a 25bps cut could ultimately support the local currency given the heavy pricing for an oversized rate reduction. Attention will then turn to the rhetoric from the central bank's monetary policy review to assess if there is a further dovish shift in the board's tone, while the decision will not be followed by a post-meeting press conference, and therefore, it could also be argued that the central bank may not prefer to move so aggressively at this meeting.

Copyright © 2024 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com