

Economic Alert

MONETARY POLICY REVIEW – JULY 2022

Wednesday 13 July, 2022

“The Monetary Policy Committee today increased the Official Cash Rate (“OCR”) by 50bps to 2.5 percent.”

Because:

“The Committee is resolute in its commitment to ensure consumer price inflation returns to within the 1-3% target range.”

And we will go again:

“The Committee agreed to continue to lift the OCR to a level where it is confident consumer price inflation will settle within the target range.”

However ...

“The Committee acknowledged there is a near-term upside risk to consumer price inflation and emerging medium-term downside risks to economic activity.”

And:

“Labour shortages continue to be a major constraint for business activity, as are the ongoing impacts of global supply chain disruptions.”

As inflationary pressures remain imbedded:

“The level of global economic activity, combined with the ongoing supply disruptions largely driven by both COVID-19 persistence and the Russian invasion of Ukraine, continue to generate global inflation pressures. Food and energy prices are especially affected by geopolitical tension.”

But there is a slowdown coming ...

“Financial conditions have continued to tighten with mortgage rates rising in response to, and in anticipation of, increases to the Official Cash Rate (OCR). Asset prices, including house prices, continue to decline.

Members agreed that the increase in mortgage interest rates will assist to bring house prices more in line with sustainable levels. The Committee also agreed that both high food and energy costs and rising mortgage interest rates will lead to more subdued household discretionary spending in coming quarters.”

“The Committee agreed that observing how households and firms are responding to these economic challenges will be important to understanding when monetary policy settings will be sufficient to achieve its remit objectives.”

Comment:

The RBNZ raised interest rates by half a percentage point for a third straight meeting and said it will continue to tighten policy “at pace” until it is sure inflation is contained. And while no-one was expecting a change in the Committee’s outlook, given that it was an MPR meeting rather than an MPS, the “Members agreed that developments were broadly in line with their assessment at the May Monetary Policy Statement” meaning today’s increase brings the OCR rate above the RBNZ’s neutral rate as expected.

Market Implications:

Nada ... if such a word exists!

That the hike had been predicated by all 20 economists prior to the announcement, and because the RBNZ’s projections weren’t altered, there was very little to get excited about. Following the release of the statement, the NZD fell in the currency markets, but only at the peripheral, while swap rates eased back giving up their earlier gains to be 4-5 basis points lower across the curve.

With nothing new to focus on, and important releases in the US due later tonight, the focus from financial markets has swiftly moved on.



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