Economic Alert

MONETARY POLICY STATEMENT — NOVEMBER 2023

Wednesday, 29 November 2023

"The Monetary Policy Committee today agreed to maintain the Official Cash Rate (OCR) at 5.50 percent."

But there was a hook:

"Inflation remains too high, and the committee remains wary of ongoing inflationary pressures."

Which means:

"The OCR will need to stay restrictive, so demand growth remains subdued, and inflation returns to the 1.0% to 3.0% target range."

Domestically:

"Wage growth has eased from recent peaks. Demand for labour is softening, with job advertisements now below pre-COVID-19 levels. At the same time, strong inward migration is increasing the population and adding to labour supply."

And a warning:

"If inflationary pressures were to be stronger than anticipated, the OCR would likely need to increase further."

Globally:

"Internationally, economic growth has been stronger than was expected at the start of this year but remains below trend and is likely to slow further. This subdued growth outlook will continue to restrain New Zealand's export revenues."

To conclude:

"The Monetary Policy Committee agreed that interest rates will need to remain at a restrictive level for a sustained period of time, so that consumer price inflation returns to target and to support maximum sustainable employment."

Comment:

While the unchanged verdict was anticipated by all economists prior to the meeting, the RBNZ Governor, Adrain Orr, played 'against-the-trend' as he likes to do. Justifying it on the basis that most major central banks have indicated that they intend to retain current restrictive policy rates for longer, and are willing to tighten further. There remains the contradiction that while inflation will return to its 1.0%-3.0% band in Q3 2024, the central is now projecting it won't cut the OCR until mid-2025. Whether one 'buys' into this rhetoric is certainly up for debate, but it should be remembered that the RBNZ's mandate, as per its price stability goal is, *"to maintain inflation between 1.0% and 3.0% over the medium term."* And while we can debate what constitutes the medium-term, we would suggest Q3 2024 is a fair representation. This being the case, the Governor could have conceivably cut the OCR at today's meeting!

That's it… we're on holiday. Well, maybe not us, but the RBNZ will now essentially have the 'Out Of Office' replies on until their next meeting on the 28-February 2024! Sure, we'll get a few quotes and speeches over the next few days, but we shouldn't expect anything else from the central bank beyond that!

Market Implications:

While everyone was expecting the unchanged OCR, no-one was expecting an increase in the central bank's OCR forecasts for 2024.

The heightened interest rate projections lit a fuse under the NZD as its soared to a 4-month high against the USD, to above 0.6200, while NZD/JPY has established a new 8-year high at 90.90! Simply put, the NZD is higher on all of the crosses, and as we slowly start to hear global central bankers dial back their hawkishness, we should expect further appreciation in the coming months.

Domestic swap rates have also gapped higher, in the region of 10-12bps at the short-end of the curve, and 7-9bps higher at the longer end, although this momentum will soon wain as international moves start to take precedence in London/NY market sessions.

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